

The Single Market Review

SUBSERIES II: IMPACT ON SERVICES

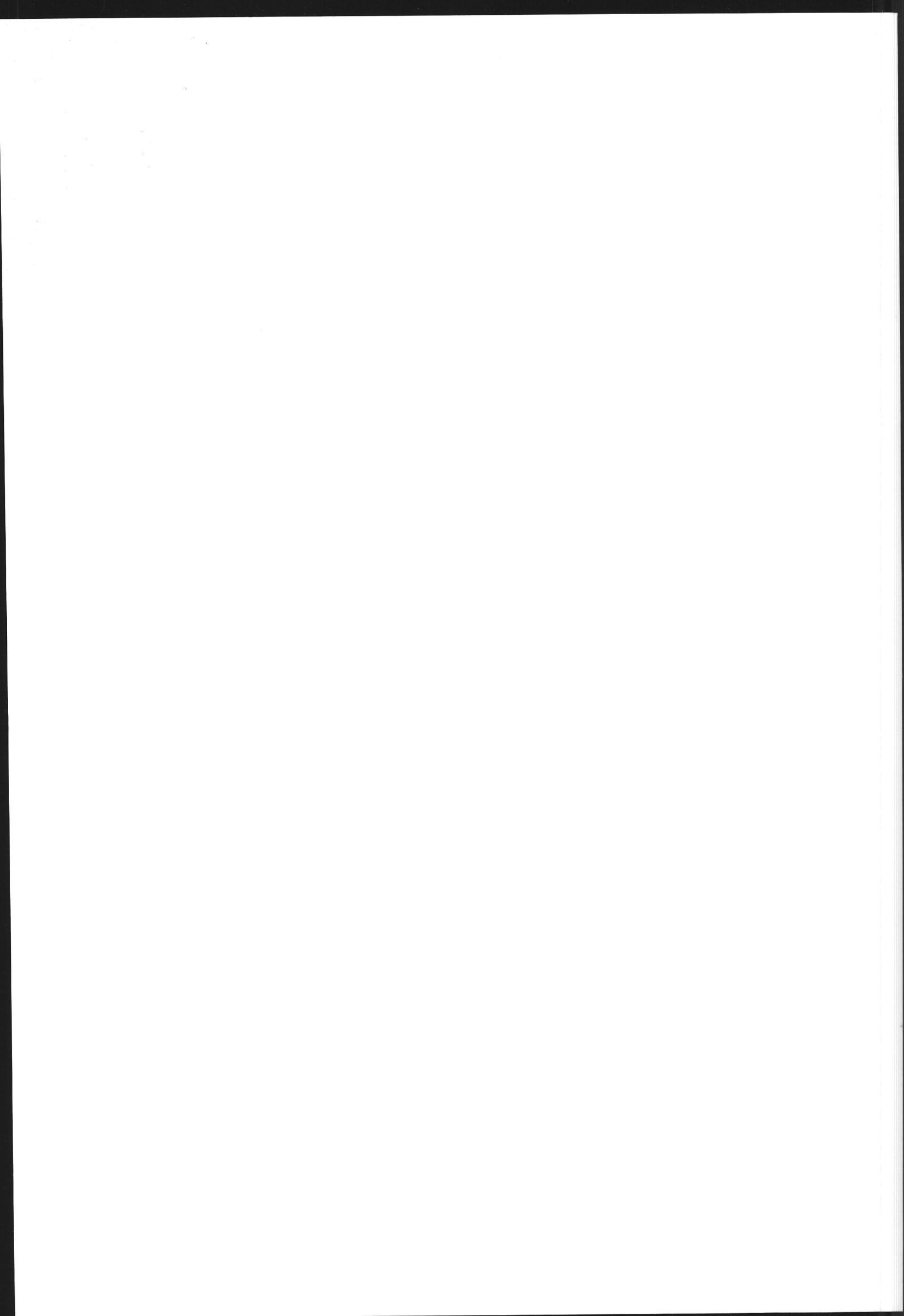
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The Single Market Review

IMPACT ON SERVICES

ADVERTISING

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The Single Market Review

IMPACT ON SERVICES

ADVERTISING

The Single Market Review

SUBSERIES II: VOLUME 7

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This report is part of a series of 39 studies commissioned from independent consultants in the context of a major review of the Single Market. The 1996 Single Market Review responds to a 1992 Council of Ministers Resolution calling on the European Commission to present an overall analysis of the effectiveness of measures taken in creating the Single Market. This review, which assesses the progress made in implementing the Single Market Programme, was coordinated by the Directorate-General 'Internal Market and Financial Services' (DG XV) and the Directorate-General 'Economic and Financial Affairs' (DG II) of the European Commission.

This document was prepared for the European Commission

by

Bocconi University

It does not, however, express the Commission's official views. Whilst every reasonable effort has been made to provide accurate information in regard to the subject matter covered, the Consultants are not responsible for any remaining errors. All recommendations are made by the Consultants for the purpose of discussion. Neither the Commission nor the Consultants accept liability for the consequences of actions taken on the basis of the information contained herein.

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List of abbreviations

EC	European Community
ECU	European currency unit
EU	European Union
EUR-12	Belgium, Denmark, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, Netherlands, Portugal, United Kingdom
FMCG	Fast moving consumer goods
GDP	Gross domestic product
M&As	Mergers and acquisitions
MNEs	Multinational enterprises
n.a.	Not available
NETC	Nissan European Technical Centre
OTC	Over the counter
R&D	Research and development
SEK	Swedish krona
SMEs	Small and medium-sized enterprises
TVWF	Television without Frontiers
USD/US\$	US dollar

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1. Summary

The objective of this research was to carry out a quantitative and qualitative assessment of the impact of single market integration on the organization and performance of the advertising services sector.

Figure 1.1 summarizes the general framework of the research. The European Union (EU) measures taken to complete the single market have had a significant impact on the advertising agency business. Two types of measure have been identified:

- (a) The direct measures include all measures with a direct impact on the advertising sector in general, and those affecting advertising for particular products or services. For example, the effects of case law pursuant to infringements under Articles 30 and 59 of the EC Treaty and the effects of the Directive on misleading advertising and the Television Without Frontiers (TVWF) Directive have been analysed, for their impact on the advertising sector in general, and on the provision of advertising services for specific products in particular.
- (b) The indirect measures include all the measures which have widened companies' markets by reducing the barriers to the free movement of goods and the free provision of services across borders in the European Union. As advertising is usually an essential tool for the penetration of new markets, these measures have indirectly increased the demand for the cross-border provision of advertising services.

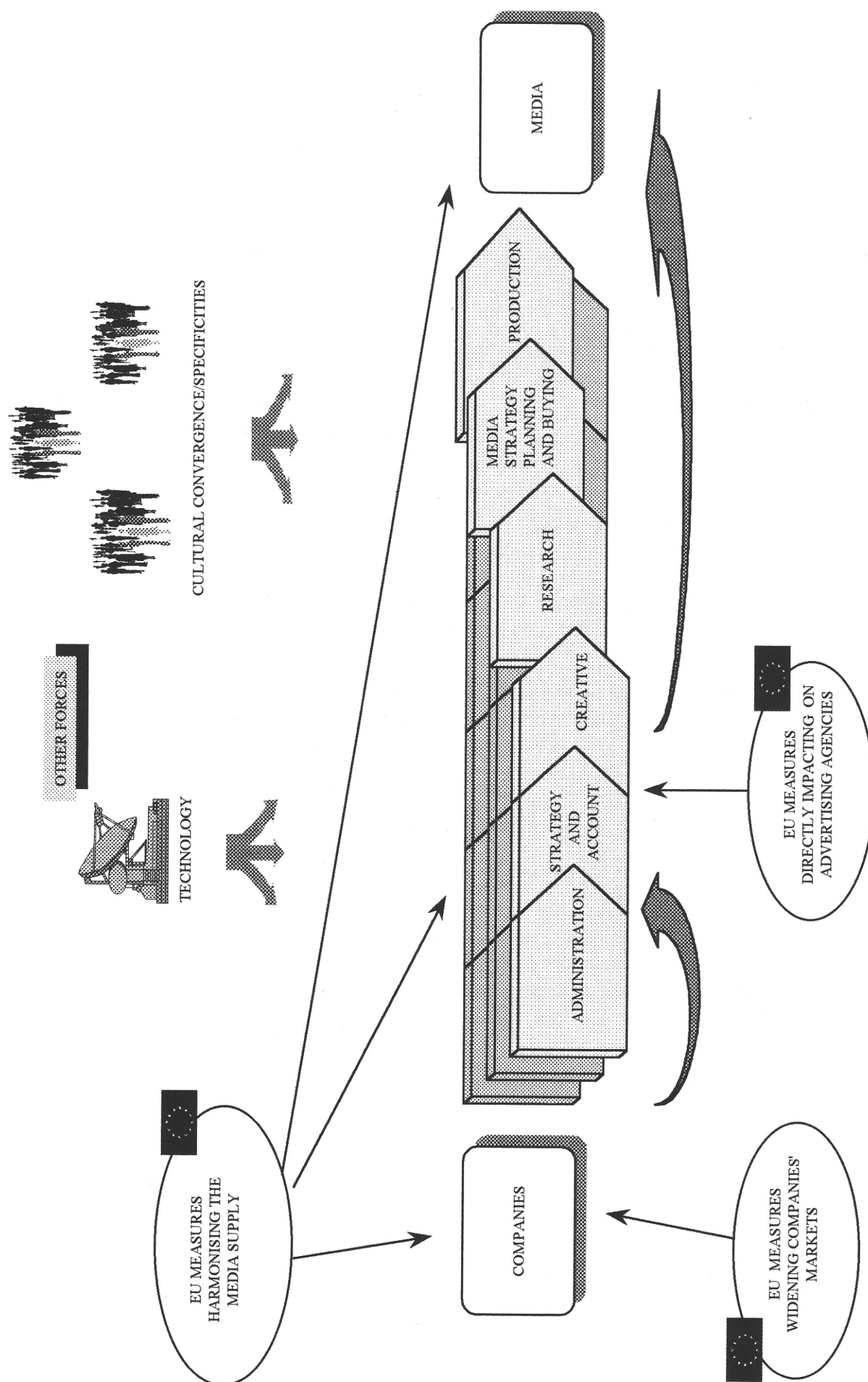
With regard to the direct measures, it was found that these improve the convenience of pan-European marketing. In particular, users of advertising services perceive that the reduction in the cost of running cross-border advertising campaigns as a result of EU measures is particularly related to the liberalization of broadcasting services, as a result of the Television Without Frontiers Directive. Companies and agencies are also aware of the fact that tobacco TV advertisement and prescribed pharmaceuticals advertising are not possible because these regulatory bans have existed for many years in most Member States and have been harmonized by certain directives.

The main impact on the advertising sector is a result of indirect measures (i.e. the more efficient application of single market law, and notably Articles 30 and 59 of the EC Treaty), which resulted in the elimination of obstacles to the free movements of goods and the free provision of services in the European Union, allowing the users of advertising services to adopt a genuine pan-European approach, thus creating a demand for cross-border advertising services. Our field research showed that the establishment of the single market had led to cost reductions.

The major changes in the strategic and operational activities of the advertising agencies are thus a consequence of the way the creation of the single market has influenced both the marketing and communication strategies of clients, and the organization and performance of the carriers of advertising services, such as the broadcasting industry.

The behaviour of the users of advertising services shows a continuous trend towards a greater standardization of marketing policies, particularly in those sectors in which there is the greatest evidence of convergence in the behaviour of consumers (such as 'youth' and 'luxury').

Figure 1.1. The impact of the single market on the advertising business value-chain



Source: Bocconi University

According to the companies, the thrust towards advertising standardization is due to three factors: the convergence of consumer behaviours, the internationalization of the media system which allows for the realization of transnational campaigns, and the harmonization process derived from single market integration. They are also of the opinion that these three factors will have an even greater importance in the next five years than they did in the last ten.

The benefits from standardization are particularly relevant to the opportunity to exploit the same brand image across Europe and the possibility of obtaining economies of scales in campaign productions. These benefits are regarded as being of greatest importance by both investors and advertising agencies.

The major obstacles to standardization result from the continued existence of cultural differences between European countries which particularly influence the effectiveness of copy strategy. The greatest benefit of an adaptation strategy both for companies and advertising agencies lies in the increased effectiveness of the copy strategy.

With respect to different communication activities, advertising activities in the strict sense are showing a greater tendency towards standardization. The definition of objectives, targeting and campaign production tend to be more standardized, while media planning and buying tend to be more adapted to local markets.

Many of the companies interviewed have noted that further acceleration towards standardization may be the consequence of greater harmonization of the legislative framework.

The development of a transnational advertising campaign strategy calls for a media system that is equally transnational. The companies which plan a pan-European advertising approach experience notable difficulties in media strategy planning and buying.

The results of the field research clearly show that the differences in the national media provider sectors and the continuing fragmentation of the media system are the major obstacles to the development of a pan-European advertising campaign. For these reasons the development of a more harmonized European media system is seen as one of the most important factors that would allow for the development of more standardized advertising strategies. As a consequence of the fact that advertising strategies increasingly incline towards pan-European standardization, the advertising sector has become increasingly international in orientation.

In the last ten years intra-EUR-12 trade advertising credits and debits have grown more intensely than extra-EUR-12 trade, and mergers and acquisitions (M&As) and other forms of affiliations and *ad hoc* co-operations in the advertising sector have grown equally. The result is that, even though it was already strongly international, the advertising sector has, in recent years, strengthened this orientation. This is confirmed by the field research: 84% of the advertising agencies hold that the international orientation of the sector has increased, and 82% hold that international integration is greater than in the past.

Of the factors which lead to the greater international integration of the advertising sector, the most important is the increasing internationalization of advertisers, who increasingly demand that agencies handle their campaign in more than one country.

This evolution in the user approach has forced many advertising agencies, particularly medium-sized and large ones, to create international networks and to increase their competitiveness, in order to fulfil the needs of the large pan-European advertisers.

The search for synergies of scope and scale has also increased the move towards greater international integration, as has the increasing harmonization of advertising rules at the European level. Scale and scope effects resulting from the increased possibilities of standardization influence the whole advertising services value chain.

Transnational campaigns benefit from economies of scale and scope, particularly in strategic and creative activities. The standardization of creativity necessarily follows a strategic choice of standardization. The strategic choice of standardization is the result of convergence of consumer behaviour, development of a pan-European media system and harmonization of the legislative framework. Therefore, advertising campaigns developed by companies which perceive the importance of these factors can obtain economies of scale and scope at the strategic and creative levels.

Cost savings can be further obtained in the areas of accounts and production. In the first case there has been the growth of European account departments, while as far as advertising production is concerned, the local adaptation of a transnational campaign certainly costs less than the development of separate campaigns in each country. Cost savings can be obtained in media planning by the centralization of the functions. Nevertheless, the scarcity of pan-European media and the limited availability of research at the European level do not allow for such savings. The activities of media buying also tend to be developed at national level and the cost advantages related to them are little influenced by the international dimension.

Over the last 15 years, and particularly during the 1990s, there was a notable increase in advertising investment in the EU, particularly with regard to television, thanks to the growth of commercial channels.

The penetration of different media varies from country to country. Newspapers have maintained leadership in central and northern countries (Sweden, Finland, Denmark and Germany, etc.), while television is the leader in advertising investment in Mediterranean countries (Italy, Greece, France, Spain, and Portugal).

In the early 1990s, competition in the agency sector increased greatly throughout Europe, principally due to two factors:

- (a) many businesses reduced their communication investments, particularly advertising, because of the recession;
- (b) greater European integration caused increased competition between international networks, and between local agencies and international networks.

These two factors have had the following results: a general increase in the level of sectoral concentration (even if there are still significant differences in C5 between different countries as much at the level of advertising agencies as at the level of advertising investors). The polarization between small/local agencies and large international networks has also increased, and so has price competition, which has further contributed to the decline of agency commission. This has led to the increasing adoption of alternative systems of remuneration and the use of incentive schemes.

On the other hand, increased competition has sustained the increase in internal reorganization aimed at increasing productivity, particularly through externalization processes (freelances). Internal productivity has also been improved with the adoption of new technologies which have concerned creative departments, media planning and agency administrative management. Another response to increased competition is improvements in quality of advertising agencies' methods and outputs which, according to advertisers, were generally improved for the period 1990–95 than for the five previous years.

In terms of business strategy the responses of the advertising agencies have centred on internal and external reorganization. The former are oriented to greater flexibility of structure and costs, and greater efficiency and effectiveness in internal operations. External reorganization has taken the form of developing joint ventures and strategic alliances in the logic of network development, both inside the advertising agency sector and in dealings with other operators in communication activities (media buying agencies, sales promotion, direct marketing, etc.).

In conclusion, we can state that the effects of the single market on the advertising sector have been mainly indirect. The single market programme obviously incited to a great extent the increased free movement of goods and services that has been witnessed in this sector. As a consequence, more and more companies perceive that a pan-European marketing and communication strategy is convenient, allowing advertising users to obtain exploitation of the same brand image across Europe and economies of scale in campaign production.

This factor, together with greater harmonization of advertising rules and the predicted future development of a pan-European media system, is causing changes in the advertising agency sector. Competition between agencies has increased; they have, in consequence, been led to search for synergies of scope and scale over the whole advertising service value chain and to reorganize internally and externally.

2. Introduction

2.1. General remarks

The objective of the study was to identify and measure any changes in the organization and performance of the advertising sector in the European Union as a (direct and indirect) result of single market integration.

The key objective was an assessment of the quantitative and qualitative impact of single market integration on the organization and performance of the advertising services sector. To achieve this result the value-added chain of the advertising business was examined in order to analyse its components better. Each component of the value-added chain was defined and studied, so as to understand how it contributes to the entire process of value creation.

For the purpose of this study, we focused mainly on the activities that characterize advertising services and media buying operations, but also to some extent on sponsorship and direct marketing activities, due to the increasing importance that the provision of a complete service has assumed.

The report has the following structure:

- (a) the main measures which have produced direct and indirect effects on the legislative framework affecting the advertising sector have been analysed, as have the remaining legal or administrative obstacles and/or shortcomings;
- (b) because the most important effects of the single market programme are of the indirect type, a thorough analysis is made of the reasons which lead advertisers to develop pan-European marketing and communication strategies. Particular attention has been paid to the adaptation/standardization alternative and the benefits of the two alternatives. Among the indirect effects, consideration has also been given to the evolution of the media system, with specific reference to the difficulty of developing a pan-European strategy;
- (c) the economic impact of the single market on the advertising services sector has been analysed, taking into account first the trend towards the greater internationalization orientation and integration of advertising services;
- (d) scale and scope effects in the advertising value chain have been analysed, taking into account the different activities of advertising agencies (strategic activities, creativity, account management, production, media planning and media buying);
- (e) the consequences on competition and on market concentration have been analysed, with reference to the development of investments in general, and for individual media. Beginning with the increase in competition, there has been an analysis of the effects on agency productivity and competitiveness, on competitive methods, and the evolution of the remuneration system for advertising agencies;
- (f) the business strategy has taken particular account of the internal and external reorganization which advertising agencies have undertaken, in order to face the greater competitiveness of the sector.

2.2. Methodology of the research

The research methodology was based on both qualitative and quantitative research techniques, and consisted of four phases:

- (1) thorough critical examination of the literature;
- (2) desk research in terms of analysis of significant statistical data and information about the advertising sector;
- (3) field research consisting of face-to-face interviews with representatives of a selected sample of companies, advertising agencies, media and media buyers;
- (4) case studies.

The critical examination of European and US management literature was intended to provide:

- (a) a fundamental theoretical framework for carrying out the subsequent steps of the study;
- (b) empirical research/evidence relating to specific issues and/or countries;
- (c) case histories which, alone or integrated with further interviews, could provide interesting material for an *antimonde* analysis (conceived in terms of behaviour with and without European integration) (Robson [1987]).

The desk research was intended to provide significant statistical data and information about the advertising business value chain with reference to the following major items:

- (a) expenditure in Europe, divided by media, sector of activity of the investor, country of origin of the investor, size of the investor;
- (b) the evolution of agencies' concentration (C5 in terms of billing) in the last ten years in Europe and in different Member States;
- (c) the evolution of investors' concentration (C5 in terms of expenditure) in the last ten years in Europe and in different Member States;
- (d) data referring to the evolution of mergers and acquisitions in the advertising sector;
- (e) other significant data on the evolution of the structure of other service providers (media, media buyers, research companies and advertising production companies).

The field research consisted of face-to-face interviews with representatives of companies (advertising investors); advertising agencies (i.e. agencies which manage budgets related to advertising, publicity, sponsorship, etc.); media and media buying agencies. Altogether, 179 interviews were conducted (65 companies, 97 advertising agencies, and 17 media centres and media operators).

2.2.1. Companies

The starting point of this part of the research was the internationalization of European companies and the Europeanization of non-EU companies, and the consequent development of European marketing communication strategies. The intention was to understand the extent to which this phenomenon is related to single market integration, and to what extent it is the result of other forces.

The main issues considered were the following:

- (a) increase of transnational advertising campaigns;

- (b) indirect effects of specific EU measures on the advertising agencies' value-added chain;
- (c) indirect effects of other forces on the advertising agencies' value-added chain;
- (d) the evolution of the decision-making process of advertising management before and after European integration.

2.2.2. Advertising agencies

The methodological tools used were face-to-face interviews supported by standardized questionnaires.

The interviews focused on the following issues:

- (a) extension of existing clients' national campaigns or accounts into neighbouring countries;
- (b) restructuring and growth of the European advertising sector in terms of the creation of agency networks or expansion of agencies via greenfield investment, take-overs or other acquisitions;
- (c) restructuring of other parts of the advertising business value-added chain to benefit from new European synergies, for example, in film production or media/consumer research;
- (d) development of new European accounts departments within the advertising agencies and the growth of this part of the business (broken down by client type);
- (e) growth in number of trans-border advertising campaigns of all forms and in all media;
- (f) exploitation of scale and scope effects (e.g. in planning) in each part of the advertising business value chain, leading to both cost savings and qualitative improvements in the planning, development and execution of the campaign;
- (g) extent to which competition within the advertising sectors established in different Member States has been affected by closer market integration;
- (h) changes in the operating margins of operators engaged in important parts of the European value-added chain, which can be directly or indirectly linked to changes brought about by single market integration. The study also assessed the extent to which these changes have been passed on to clients or reinvested in research and development (R&D) within the business.

2.2.3. Media

In this section the media providers (broadcasters, press, etc.) and the role of media buyers (operators specialized in media strategy and/or planning and/or buying as strictly defined) were analysed.

In order to analyse the situation of the media operators, and the changes which have occurred in their competitive environment, position and behaviour, personal interviews with semi-standardized questionnaires were used.

The main objectives of the interviews were:

- (a) to assess and disentangle to what extent European integration and other forces, such as technological improvements, have contributed to reshaping the organization of the media providers' sector;
- (b) to assess and disentangle to what extent European integration and other forces have contributed directly or indirectly – through changes in the media providers' sector – to

- reshaping the organization of the media buying and media research parts of the advertising value-added chain;
- (c) to supply further data and information on companies' international media buying behaviour. Such information will help to build and analyse significant quantitative indicators on the evolution of the internationalization of advertising expenditure;
 - (d) to supply opinions about the present and prospective future of the media situation, opinions about the strategy pursued by media, and the expected reactions of companies, advertising agencies and media buyers.

The research team regards case histories as one of the basic tools for carrying out an *anti-monde* analysis. We conducted four case studies which focused on specific issues/situations:

- (a) one investigates the impact of changes in the competitiveness of the advertising business in the UK market;
- (b) a second investigates the role, function and position of small and medium-sized advertising agencies in the international/European market;
- (c) a third case history investigates the impact of the European market on the profile and competitiveness of a Belgian advertising agency;
- (d) a fourth case history analyses different marketing strategies and advertising agency-client relationships in the European fashion business, with particular reference to the Swedish market and to fashion brands which have different positionings.

3. Effectiveness of measures taken to complete the single market

3.1. Elimination of obstacles to cross-border transactions

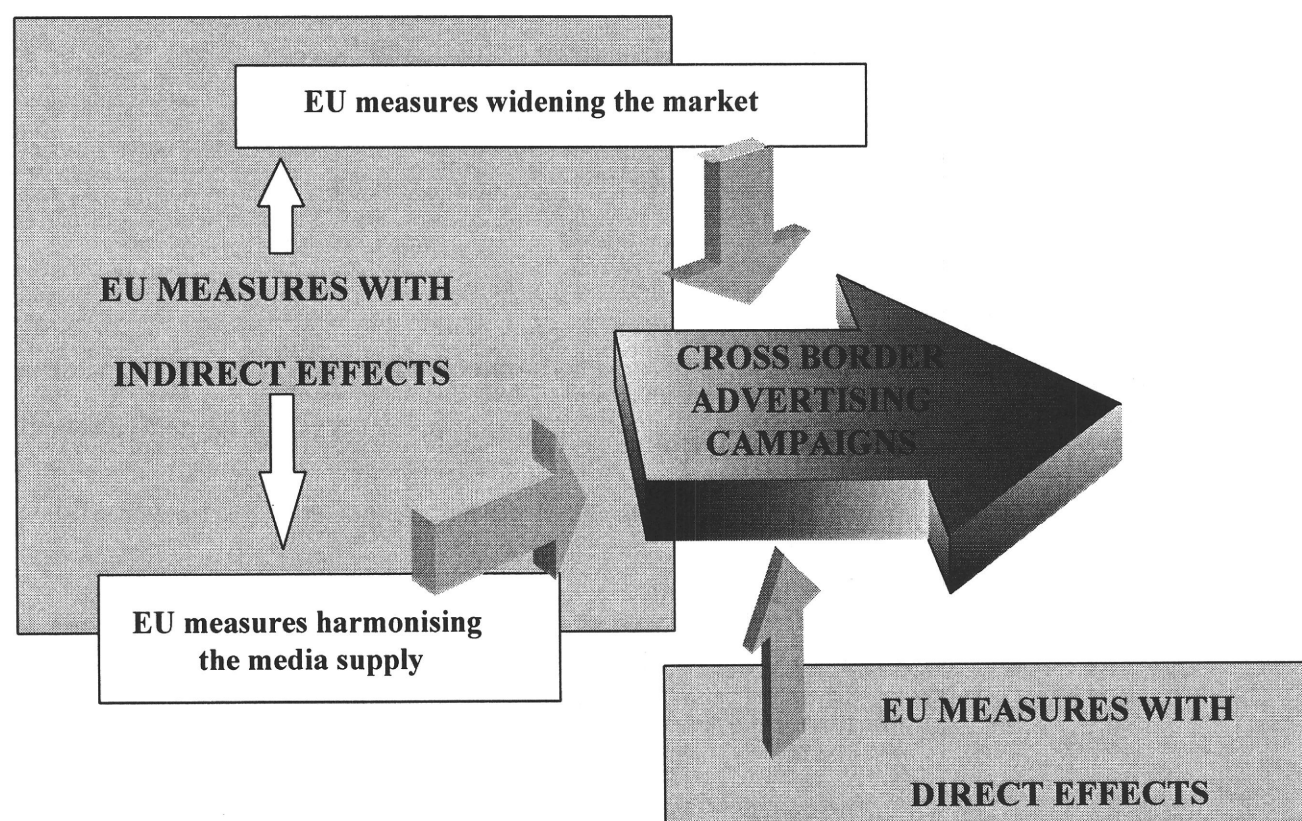
This chapter examines the EU measures adopted to harmonize advertising activities in the single market. The harmonization process is not just concerned with advertising agencies, but with the whole advertising service system. The system includes advertising agencies, companies and media.

Since the number of measures is considerable, it was decided to focus only on those that are likely to have had a more profound impact.

The measures considered are divided into two groups (Figures 3.1 and 3.2):

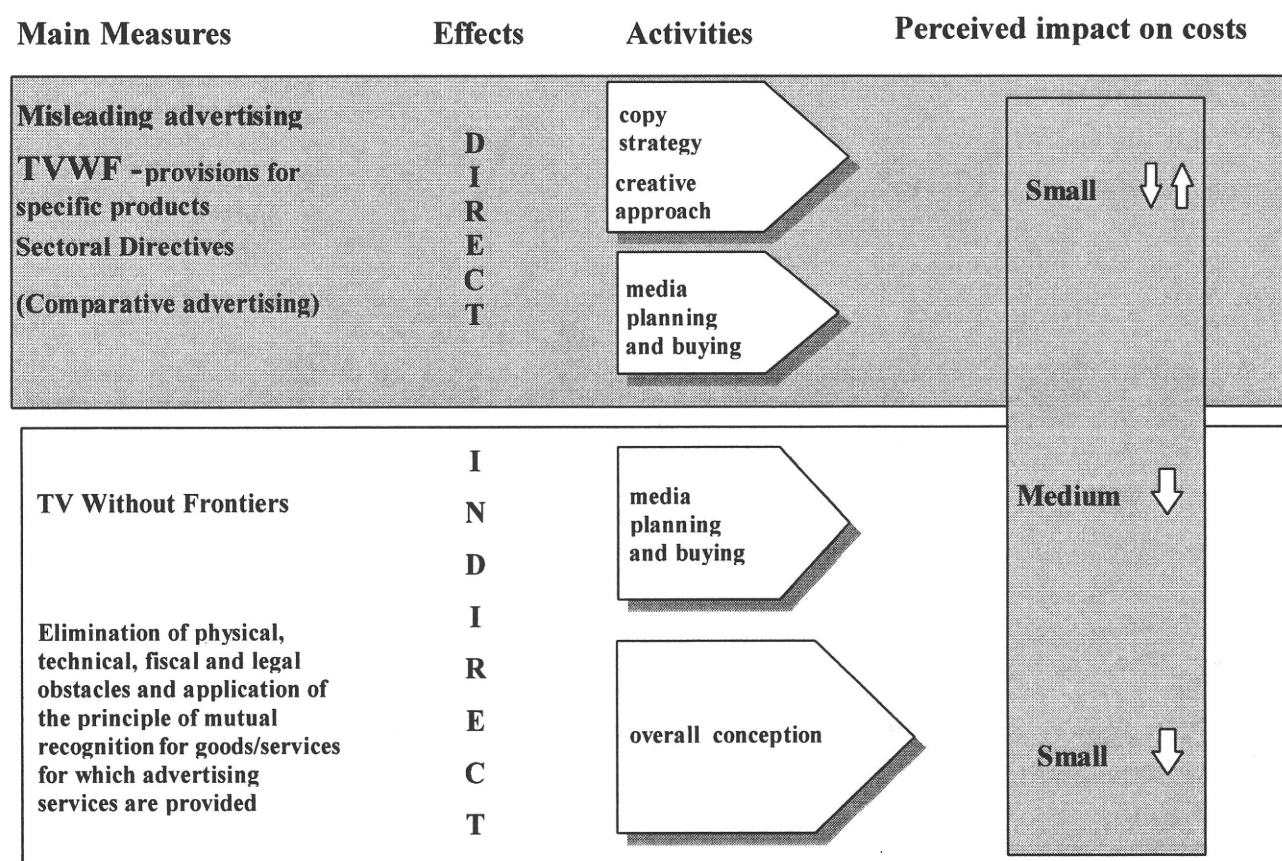
- (1) measures directly targeted at the advertising sector in general, and at advertising for certain products/services in particular;
- (2) measures producing effects that have indirectly affected the market for advertising services.

Figure 3.1. EU measures and cross-border advertising campaigns



Source: Bocconi University.

Figure 3.2. Perceived impact on costs of EU measures



Source: Bocconi University.

3.1.1. Measures with direct effects

Directive 84/450 – Misleading Advertising

The Misleading Advertising Directive¹ was adopted in September 1984, and was the first piece of EU legislation to harmonize rules across the EU relating to advertising. Directive 84/450 prohibits the misleading advertising of products or services in every Member State of the EU. The principles behind the Directive are to remove barriers to advertising across EU borders, and to protect consumers against misleading advertising in a similar way throughout the EU.

The Directive provides a general outline of the instruments which Member States can use to combat misleading advertisements. Under the terms of the Directive each Member State is obliged to introduce procedures whereby legal action can be taken against advertising which misleads the consumer.

There are, however, some differences between Member States which could be accounted for by the fact that the regulation is based on a minimal harmonization level, and a generic definition of 'misleading'. The literature and field research made evident that in most

¹ Council Directive 84/450/EEC of 10 September 1984 relating to the approximation of the laws, regulations and administrative provisions of the Member States concerning misleading advertising (OJ L 250, 19.9.1984, p. 17).

Member States implementation of the Directive has not led to any significant changes because of the minimal harmonization foreseen in the Directive. Further, the topic covered by the Directive occurs in a context of different legal cultures and criteria used in the evaluation of individual cases. A problem has been perceived by some legal analysts with regard to cross-border advertising campaigns because individual advertisements are considered misleading in some countries but not in others – and this impedes the harmonization process.

With regard to the Misleading Advertising Directive the companies were asked: 'Do you feel that the rules of different Member States concerning misleading advertising have become more similar in the last few years? If so, what has been the impact of harmonization on your costs?' (see Table 3.1). The answers showed that most of the companies perceived that the harmonization of legislation has not produced any significant impact on the cost of pan-European campaigns. A cost reduction is expected in the future due to the greater harmonization of national legislation measures across Europe. There are no significant differences in the answers among the companies due to the sectors to which they belong.

In July 1991, the Commission published a proposal for a Directive² on comparative advertising. This takes the form of a proposed amendment to the 1984 Directive on misleading advertising, and adds provisions which would specifically allow comparative advertising in the EU. The Commission adopted a final amendment in 1994 (COM(94)151) to the Misleading Advertising Directive.

Comparative advertising will improve consumer information and increase competition, and the proposal will ensure a coherent legal framework throughout the EU for comparative advertising.

Comparative advertising is defined as any advertising which explicitly or implicitly identifies a competitor (or goods or services of a similar type offered by a competitor), as long as the following conditions are met:

- (a) the characteristics being objectively compared must be essential, that is, pertinent, important and significant to the goods and services;
- (b) the elements compared must be comparable (fairly chosen);
- (c) the comparison must be objectively verifiable;
- (d) the comparison may concern only material elements, and the advertiser must be able to give immediate scientific proof of the truth of his claims;
- (e) the comparison may not:
 - (i) mislead,
 - (ii) create confusion between advertisers and brands, products or services of the advertiser and of his competitors,
 - (iii) denigrate competitors or take advantage of a competitor's notoriety.

Comparative advertising is authorized in Spain, Ireland, Portugal and the UK; and a law to allow it has been adopted in France and proposed in Greece. It is banned in Belgium and Luxembourg.

² Proposal for a Council Directive concerning comparative advertising and amending Directive 84/450/EEC concerning misleading advertising (COM(91) 147 final).

The lack of harmonization regarding comparative advertising is one of the obstacles to the development of cross-border advertising.

Directive 89/552 – Television Without Frontiers

Directive 89/552³ concerns television activities, its aim being to ensure the free movement of TV broadcasting services. It contains rules which directly affect advertising and TV broadcasting sponsorship. In particular:

- (a) it provides rules on the advertising of programmes. Specifically, it provides rules on the advertising interruptions of TV programmes, the number and frequency of interruptions permitted, programmes for which interruptions are prohibited, and the total time dedicated to advertising in a programme;
- (b) it prohibits all TV advertising and programme sponsorship by companies in the tobacco sector, as well as the advertising and sponsorship of some medicines ('prescription only' products);
- (c) it prohibits TV advertisements for spirits from making a link between their use and the consumer's social, personal or psychological success;
- (d) it also provides rules on TV broadcast sponsorship.

With regard to point (a), the Directive provides a minimal level of harmonization, allowing the Member States to use more severe and detailed laws for the TV broadcasting organizations within their jurisdiction subject to these restrictions being compatible with the Treaty provisions on the free movement of services. The minimal level of harmonization of the Directive does not permit the uniformity necessary for the planning and achievement of cross-border media buying campaigns.

Some Directives, then, do not result in horizontal effects (on all the sectors and companies operating in Europe), but they imply a level of regulation and harmonization having effects only on the sectors to which they refer. This is the case of the Directive on the advertising of pharmaceutical products.⁴

In the following pages, the characteristics and the effects of the most important sectoral Directives are described, obviously referring exclusively to the effects on advertising policies.

These Directives are arranged in decreasing order with reference to the importance of single sectors in the general economy of the advertisement sector.

EC rules on alcoholic beverages advertising

Article 15 of Directive 89/552 provides for minimal rules to permit the transmission/reception of broadcasts. The following conditions have to be met for a broadcast:

- (a) it is not aimed at children or does not depict children consuming alcohol;

³ Council Directive 89/450/EEC of 3 October 1989 on the co-ordination of certain provisions laid down by law, regulation or administrative action in Member States concerning the pursuit of television broadcasting activities (OJ L 298, 17.10.1989, p. 23).

⁴ Council Directive 92/28/EEC of 31 March 1992 on the advertising of medicinal products for human use (OJ L 113, 30.4.1992, p. 13).

- (b) it does not link the consumption of alcohol to enhanced physical performance or to driving;
- (c) it does not create the impression that the consumption of alcohol contributes towards social or sexual success;
- (d) it does not claim that alcohol has therapeutic qualities or that it is a stimulant, a sedative or a means of resolving personal conflicts;
- (e) it does not encourage immoderate consumption of alcohol or present abstinence or moderation in a negative light;
- (f) it does not place emphasis on high alcoholic content as a positive quality.

The minimal harmonization, resulting from the fact that Article 3(1) allows Member States to impose (subject to conformity with the Treaty) stricter restrictions on broadcasters operating from their territories, explains why there are significant differences between Member States which do not allow for integrated execution at the European level.

There are countries (Sweden, Finland, and in part, Denmark, France and Austria) in which the advertising of alcohol is subject to restrictive measures, while in other countries there are restrictions on the style or contents of television advertising.

Finally, there are also some Member States which allow advertising for alcohol on certain conditions, as much regarding the audience to which the advertising is directed, as the content of it.

Briefly, the execution of a trans-border campaign is extremely complex, not to say legally hazardous.

EC rules on tobacco products

The Television Without Frontiers Directive (89/552/EEC) bans television advertising and television sponsorship. The ban already existed across the Member States at the time of its adoption. Apart from television advertising and sponsorship, a number of different restrictions exist in Member States. A Commission proposal⁵ extends this ban to all other media; as a result tobacco advertising would only be allowed inside tobacco sales outlets.

The proposal also seeks to ban:

- (a) the free distribution of tobacco products;
- (b) the use of tobacco trade marks, logos or other characteristic signs when advertising another product;
- (c) the use of another product's established trade mark for the launch of a new tobacco brand.

The proposal has been issued on the grounds of the functioning of the single market, and requires majority approval in the Council of Ministers. The European Parliament adopted the Commission's proposal on 11 February 1992.

⁵ Amended proposal for a Council Directive on the approximation of the Member States' laws, regulations and administrative provisions on advertising for tobacco products (COM(92) 196 final).

In 1992, a major change in the new draft proposal concerned a clarification that the ban would not cover brand labels on fashion goods where the turnover from tobacco products marketed under the same brand or trade mark, even by a different company, did not exceed half the turnover from non-tobacco products of this brand, and the brand or trade mark was first registered for non-tobacco products.

EC rules on the advertising of pharmaceutical products

In March 1992, the Council adopted a Directive on the advertising of pharmaceutical products for human use.⁶ The Directive contains separate rules on advertising to the general public and on advertising to health professionals.

Advertising to the general public will be allowed exclusively for non-prescription products. Where advertising to the general public is permitted for over-the-counter (OTC) medicines, it will have to comply with certain positive conditions (e.g. minimum information content) and certain negative conditions (including prohibition of certain forms of advertising).

The main objective of the Directive is to allow the free movement of goods by harmonizing the different national schemes with regard to non-prescribed pharmaceutical advertising.

The major problem in executing cross-border advertising campaigns for OTC pharmaceutical products is derived from the fact that the list of prescribed and non-prescribed products is different in different Member States. For this reason a cross-border advertising campaign is possible only when it involves products which are not subject to prescription in any of the countries.

There are other differences which make the establishment of European advertising campaigns difficult or even impossible. National laws are sometimes more restrictive than the common standards set by Directive 92/28/EEC on pharmaceutical advertising. In particular, in countries where public advertising for non-prescription medicines needs pre-marketing government authorization, companies often experience long delays in gaining approval for an advertisement.

As far as advertising to health professionals is concerned, the Directive provides for the inclusion of more detailed information in advertisements, and seeks to ensure that documentation on medicinal products enables the addressee to form his own opinion of the therapeutic value of the product. Further rules are laid down with regard to the role of medical sales representatives, the distribution of free samples to health personnel, and the prohibition of any financial inducements to pharmacists or doctors.

The Directive has opened up the market in Spain. In Italy it has prevented the enactment of legislation that would have banned or severely restricted the advertising of OTC medicines, thereby denying information to consumers and obliging healthcare advertising agencies to cease their activities.

With regard to the advertising of pharmaceutical products, it is also important to point out that some Member States do not allow the advertising of the same trade mark for prescription and

⁶ Council Directive 92/28/EEC of 31 March 1992 on the advertising of medicinal products for human use (OJ L 113, 30.4.1992, p. 13).

non-prescription medicines. As a result, differentiation between the two kinds of medicines is often made through the use of trade mark suffixes or through visual differences on the packaging, which could create ambiguity. This practice, which is called an 'umbrella trade mark' is allowed in other countries as long as sufficient distinction is guaranteed, as for example, in the Netherlands, the United Kingdom and Germany.

Research carried out by Intermatrix [1994] on the distribution of communication investments in different communication tools across Europe, has made it evident that the number of transnational campaigns in this sector is very small. Some respondents report that this is due to the lack of harmonization in the sector (directly and indirectly affecting advertising services) that prevents the standardization of marketing strategies cross-Europe.

EC rules on the advertising of financial services

A major part of the EU's single market programme has been concerned with the removal of barriers to trade in financial services – banking, investment services and insurance.

In the past, rules designed to protect the consumer of such services have differed from one Member State to another, thus making it impossible for companies to take advantage of the single large market and sell their services abroad.

It is generally agreed that in the case of financial services, a high level of consumer protection is necessary since so much is at stake – mortgages, life insurance facilities, savings, etc. The challenge has been to provide this protection at EU, rather than national, level, so that consumers are able to shop around in different Member States for the cheapest deals, secure in the knowledge that they are protected to the same degree as if they went to their local bank, insurance company, or investment firm.

In the field of banking, investment services and insurance (with the exception of life insurance), the EU has put emphasis on harmonizing the rules on the control of banks, insurance companies and investment firms in their home countries. Since the focus of these Directives⁷ was concentrated on the establishment of firms, they often left the 'public good' provisions of advertising restrictions unharmonized at the EU level, by stating that branches had to apply the rules of the Member State where they operated. Thus, although marketing and advertising was permitted across borders by these texts, firms had to comply with the regulations in the host country rather than the home country.

Nevertheless, there are still significant disparities which inhibit the development of cross-border commercial communication services. Copy clearance is demanded in some Member States and not in others. More generally, difficulties of interpretation and the details inserted into some national laws make what is allowed and not allowed in financial services advertising uncertain from a legal point of view.

⁷ Council Directive 64/225/EEC of 25 February 1964 on the abolition of restrictions on freedom of establishment and freedom to provide services in respect of reinsurance and retrocession; Council Directive 73/183/EEC of 28 June 1973 on the abolition of restrictions on freedom of establishment and freedom to provide services in respect of self-employed activities of banks and other financial institutions; Council Directive 73/240/EEC of 24 July 1973 abolishing restrictions on freedom of establishment in the business of direct insurance other than life insurance; Council Directive 92/49/EEC of 18 June 1992 on the co-ordination of laws and administrative provisions relating to direct insurance other than life insurance and amending Directives 73/229/EEC and 88/357/EEC (third non-life insurance Directive).

EC rules on advertising for life insurance

In November 1990, the Second Life Assurance Directive⁸ was adopted which allows consumers to shop around in another Member State for life assurance, even though the company they buy from does not have a subsidiary in their own home country. In this case, however, it is to be considered that they seek the policy on their 'own initiative' and knowingly forego protection from the regulators in their home country.

In order to emphasize the principle of 'own initiative' in these circumstances, the Commission had originally proposed that life assurance companies should be banned from advertising their services in EU countries where they are not established (i.e. where they have no subsidiaries). However, in the final text of the Directive, this was changed so that life assurance companies are simply prohibited from sending direct mail advertising to potential policy-holders in Member States where they are not established (i.e. from contacting them personally).

In November 1992, the Internal Market Council adopted the Third Life Assurance Directive⁹ which removes even these remaining obstacles to advertising, since it provides a sufficient level of consumer protection across the whole of the EU.

Under the new Directive, companies with head offices in a Member State may advertise their services through all available means of communication in other Member States, even if there is no local subsidiary. In other words, life companies have been allowed to operate across borders under the control of their home countries since mid-1994. A single authorization will be granted on the principle of mutual recognition between EU Member States. Nevertheless, Spain and Portugal continued until January 1996 (and Greece will do so until January 1999), to oblige foreign firms systematically to notify all policy conditions (except tariffs), and to maintain control over foreign companies' technical reserves.

According to consumer groups, failure to agree common EU contract laws will dissuade people from buying foreign policies because of fears over how to handle legal disputes. This Directive is considered as the final piece of legislation in the EU strategy for a single insurance market. The Directive came into force in mid-1994.

EC Directive on infant formulae and follow-on formulae

In order to promote and protect breast-feeding, the EU enacted a Directive on infant formulae and follow-on formulae in May 1991,¹⁰ amended in February 1996,¹¹ laying down composition and labelling requirements including some restrictions on advertising infant formulae and follow-on formulae.

⁸ Council Directive 90/28/EEC of 8 November 1990 on the co-ordination of laws, regulations and administrative provisions relating to direct life assurance, laying down provisions to facilitate the effective exercise of freedom to provide services and amending Directive 79/267/EEC (OJ L 330, 29.11.1990, p. 50).

⁹ Council Directive 92/96/EEC of 10 November 1992 on the co-ordination of laws, regulations and administrative provisions relating to direct life assurance and amending Directives 79/267/EEC and 90/619/EEC (OJ L 360, 9.12.1992, p. 1).

¹⁰ Commission Directive 91/321/EEC of 14 May 1991 on infant formulae and follow-on formulae (OJ L 175, 4.7.1991, p. 35).

¹¹ Commission Directive 96/4/EC of 16 February 1996 amending Directive 91/32/EEC on infant formulae and follow-on formulae (OJ L 49, 28.2.1996, p. 12).

In particular, advertisements must contain only information of a scientific and factual nature. This information shall not imply, or create a belief, that bottle-feeding is equivalent, or superior to, breast-feeding.

Advertising is restricted to publications specializing in baby care and scientific publications. Member States may further restrict or prohibit such advertising.

There shall be no point-of-sale advertising, giving of samples, or any other promotional device to induce sales of infant formulae directly to the consumer at the retail level, such as special displays, discount coupons, premiums, special sales, etc.

3.1.2. Measures with indirect effects

The market for advertising services has not only been influenced by the direct measures targeted at it, but also by all those measures supporting the development of pan-European market strategies and thus the development of pan-European advertising strategies. These principally concern the measures which allow for the enlargement of the market and the measures which include the harmonization of the media system. In the first case, these measures have a direct effect on company marketing strategies, and therefore only indirectly on advertising strategies. In the second case, they directly affect the media system, whilst allowing for the development of a pan-European media system, and indirectly supporting the development of cross-border advertising campaigns.

The existence of physical, technical, fiscal and legal obstacles to the free circulation of goods and services has impeded intra-EU trade for a long time. This situation had the effect of maintaining relatively high marketing costs for strategies targeted to the whole European market, thus frustrating the proper functioning of the single market. The application of the principle of mutual recognition of national legislation to the free movement of goods and services has had an indirect positive impact on pan-European advertising, because it has favoured general economies of scale in the European marketing of products and services.

In order to analyse this impact we asked the companies to quantify, on a scale varying from very large cost reductions to very large cost increases, the general impact on the 'Europeanization' of marketing communication strategies deriving from the elimination of physical, technical, fiscal and legal barriers, and the application of the principle of mutual recognition of national legislation to achieve the free movement of goods in the single market (Table 3.1). Among the measures reported in the table, this one was the best-known (every respondent knew the main contents of this measure, and 85% of them thought a thorough implementation of this measure had already taken place). Respondents expressed great difficulty in evaluating the impact of this measure on advertising costs.

The development of the free movement of broadcasting services in the Television Without Frontiers Directive has a positive effect on the possibility of conducting transnational advertising campaigns.

Table 3.1. EU measures and the convenience of cross-border communication campaigns

	A	B	C	D	Average impact on the communication costs
Elimination of physical, technical, fiscal and legal obstacles and application of the principle of mutual recognition	85%	0%	15%	65	very slight reduction
ADVERTISING					
<i>Copy strategy and creative approach</i>					
Misleading Advertising Directive: harmonization of rules	32%	37%	31%	19	no impact at all
TV without frontiers: harmonization of rules concerning campaigns targeted to minors	28%	17%	56%	18	no impact at all
TV without frontiers: harmonization of rules concerning the advertising of alcoholic products	25%	25%	50%	8	slight reduction
Infant formulae and follow-on formulae: harmonization of rules concerning advertising content	40%	20%	40%	5	very slight reduction
Medicinal products: harmonization of rules for the creative design of 'non-prescription products'	50%	33%	17%	12	very slight reduction
Cosmetics: harmonization of rules for the advertising content	75%	0%	25%	4	slight reduction
<i>Campaign production and execution</i>					
Diminution of cross-border barriers to the use of the same advertising material	58%	13%	29%	31	slight reduction
<i>Media planning</i>					
TV without frontiers: contribution to the development of media systems in Member States	60%	9%	31%	32	slight reduction
Infant formulae and follow-on formulae: harmonization of rules for the media to be utilized	60%	0%	40%	5	slight increase
<i>Media buying</i>					
TV without frontiers: contribution to the development of media systems in Member States	50%	17%	33%	30	very slight reduction
<i>Direct marketing</i>					
TV without frontiers: contribution to the development	31%	13%	56%	16	very slight reduction
Financial services: harmonization of rules for direct mail campaign	100%	0%	0%	2	slight reduction
<i>Sponsorship</i>					
TV without frontiers: harmonization of the general rules concerning sponsorship	26%	31%	43%	23	very slight reduction

Notes:

A: % of companies perceiving changes*

B: % of companies not perceiving changes*

C: % of companies considering the measure not relevant*

D: Number of reliable answers

* The percentages and average values have been calculated taking into account only the 'reliable answers'.

Source: Bocconi University.

With regard to advertising services, the major effects of these measures will be in media strategy, planning and buying functions. In particular we can mention:

- lower advertising space and time costs, due to increased competition among different media and opportunities for economies of scale in media buying;
- increase in media planning quality (economies of scope) due to a wider choice for advertising investments: increased number of media and increased specialization. In 1981 there were just 39 channels in Europe, but by 1991 that number had grown to 66 national terrestrial stations, 82 satellite channels, and another 700 regional and local channels;

- (c) lower barriers for SMEs to invest in mass media, due to a wider number of local and national channels;
- (d) development of pan-European media and consequent opportunities for economies of scale and scope in media buying and planning.

The fact that the TVWF Directive is applied exclusively to TV broadcasting services, and not also to other means of communication, implies that communication strategies which consistently make use of non-television means still remain anchored to a national rather than a pan-European perspective, and have to adapt themselves to the varying restrictions of advertising content regulations across the Member States.

3.2. Remaining legal or administrative obstacles and/or shortcomings

The main problems and shortcomings in the regulatory framework are examined in this section. The main issues concern the difficulty of planning and implementing advertising strategies at the European level.

The results of the field research can be summarized thus. Advertising agencies are more responsive towards these problems than advertisers, and they pay similar attention to the different legislative shortcomings considered in the questionnaires: from those concerning the language to be used in advertising to those concerning the communication tools mix (e.g. absence of harmonization in the fields of sales promotion and of comparative advertising).

One point should be emphasized: the respondents attribute less importance to obstacles generated by the regulatory and administrative framework's shortcomings than to obstacles from other sources. The shortcomings are listed in the following degrees of importance: first, cultural differences, second, differences in trade and distribution practices and media systems, and, finally, the legislative shortcomings themselves (Table 3.2).

3.2.1. Cultural factors

As noted above, all respondents pay more attention to shortcomings deriving from cultural sources than to perceived shortcomings deriving from the regulatory and administrative framework. Advertising agencies, in particular, report that linguistic and cultural factors are the first to be taken into account during the planning process for successful pan-European advertising campaigns. It is only after establishing that there are no insuperable cultural barriers that the agencies consider problems presented by legal and administrative obstacles.

It should be noted that certain advertising agencies may have a vested interest in over-emphasizing the cultural barriers since multiple accounts can result from arguing such a line. Nevertheless, the importance of cultural barriers should not be minimized.

Table 3.2. Cultural factors preventing advertising standardization for advertising agencies (Scale: 1. Not important, 5. Very important)

<i>Items</i>	<i>Advertising agencies</i>
Different cultural frameworks	
(a) Different languages	4.16
(b) Cultural differences	4.67
(c) Different attitudes towards advertising	3.36
Different distribution and trade habits and systems	
(a) Different product classification systems	2.77
(b) Local trading and/or distribution traditions	3.26
(c) Different product type customer preferences	3.34
(d) Different media buying habits	2.43

Source: Bocconi University.

Table 3.3. Cultural factors preventing advertising standardization for companies (Scale: 1. Not important, 5. Very important)

<i>Items</i>	<i>Companies</i>
Different cultural frameworks	
(a) Different languages	3.54
(b) Cultural differences	3.57
(c) Different media buying habits	2.50

Source: Bocconi University.

3.2.2. Legal factors

Advertising agencies and advertisers pay similar attention to the different legislative shortcomings contained in the questionnaires, e.g. the absence of harmonization in the field of sales promotion and comparative advertising. Although the research indicates that advertising agencies give greater prominence to cultural than to legal factors, there is, in reality, a considerable number of measures regarding the general and specific communication aspects which prove to be different in the various Member States. It is interesting to note that respondents felt that the only way to overcome these restrictions was through harmonization. This demonstrates the lack of awareness of the infringement procedure to help enforce mutual recognition.

The final result is a situation of numerous partial restrictions which concern one or more Member States. If one considers the situation in general, there clearly emerges a market in which, in certain circumstances, it may be difficult, not to say legally hazardous, to design and implement a pan-European advertising campaign.

In reality, a company which has decided to develop a pan-European advertising campaign often finds itself in the situation of having to adapt to the various different environments, not only of the market but also of the law. It is this which often causes the greatest costs and/or the danger to the communication's effectiveness.

Table 3.4. Legal and administrative factors preventing advertising standardization for advertising agencies (Scale: 1. Not important, 5. very important)

<i>Items</i>	<i>Advertising agencies</i>
Regulatory and administrative framework's shortcomings	
(a) Trade barriers still remaining	2.31
(b) Different national laws concerning languages requirements for advertising	2.67
(c) Different national marketing laws and rules in different countries	3
Different communication tools framework	
(a) Different evolution of marketing communication tools in different countries	2.68
(b) Different media system	2.92
(c) Absence of harmonization in media research methodologies	2.39
(d) Absence of harmonization in the field of sales promotion	2.29
(e) Absence of harmonization in the field of comparative advertising	2.64

Source: Bocconi University.

Table 3.5. Legal and administrative factors preventing advertising standardization for companies (Scale: 1. Not important, 5. Very important)

<i>Items</i>	<i>Companies</i>
Regulatory and administrative framework's shortcomings	
(a) Different national laws concerning languages requirements for advertising	2
Different communication tools framework	
(a) Different evolution of marketing communication tools in different countries	2.57
(b) Different media system	2.83
(c) Absence of harmonization in media research methodologies	2.31
(d) Absence of harmonization in the field of sales promotion	2.17
(e) Absence of harmonization in the field of comparative advertising	2.33

Source: Bocconi University.

The administrative and legal obstacles concern numerous areas of commercial communication. The most significant obstacles to the development of pan-European advertising campaigns are listed below.

Misleading advertising: the minimal harmonization provided by the Directive, and the diversity of interpretation in the various Member States, can be an obstacle to the development of an advertising campaign with the same message throughout Europe.

Price advertising: advertising campaigns linked to sales promotion activities suffer from the notable legal and administrative differences in the various Member States, and are often unrealizable on a trans-border level.

Media restrictions: Directive 89/552 provides the possibility for Member States to apply more restrictive measures to the broadcasters under their jurisdiction. The differences between the various Member States make the planning and execution of trans-border media buying more difficult.

Sponsorship restrictions: the differences between Member States are notable and create problems also with regard to differences of interpretation. In addition to the differences at the general level, there are further differences between Member States regarding communications for specific products.

The most important differences concern the communication of products deriving from tobacco, alcoholic products, pharmaceutical products, financial services and commercial communication to children.

4. The indirect effects of the single market programme

4.1. Introduction

The development of advertising services is due to two factors:

- (1) the development of company marketing and advertising strategies;
- (2) the structure and development of the system of communication media.

These two elements are of equal importance with regard to the processes of company internationalization for understanding the forces which push companies to plan for and achieve transnational advertising campaigns.

This chapter analyses the alternatives of standardization versus adaptation of marketing strategies (and, therefore, also communication strategies and advertising strategies), emphasizing and comparing the benefits of these two alternatives. This analysis also takes into account the sample of companies interviewed as much as the four sectors considered (FMCG, business-to-business, luxury and youth).

The starting hypotheses, which have been largely confirmed, can be set out as follows:

- (a) there is a continuous trend for the growing standardization of marketing and communication activities, particularly in those markets faced with consumers whose purchase behaviour tends to be culturally homogeneous at the international level (especially 'luxury' and 'youth');
- (b) mass communication activities tend to be more standardized, especially advertising and sponsorship, while tactical activities, such as sales promotions, are relatively more adapted to local markets;
- (c) regarding advertising activity in the strict sense, standardization tends to be greater with reference to the strategic definition of objectives than to the positioning of communication and targeting, while media planning and media buying activities are closer to adaptation. The forces of greatest hindrance to the standardization processes of marketing and advertising strategies are cultural and linguistic barriers.

It is equally important to consider the development of the media system, which is capable of sustaining transnational advertising campaigns.

Section 4.3 deals with media development, pointing out the still limited availability of pan-European media, even if in recent years their number has increased considerably. Currently, recourse to the centralized management of media planning and buying is still limited.

4.2. Advertisers' strategies

4.2.1. Internationalization of companies and pan-European marketing strategies

The principal reason for advertising agencies to internationalize lies in their attempt to follow the movements, and effectively support the strategies, of clients.

Academics and respondents agree that advertisers' choices about 'where', 'when' and 'how' to internationalize, have always dictated the fundamental terms for advertising agencies' internationalization. Since the field research largely supports the thesis that advertisers' strategies greatly influence the agencies' internationalization process, the analysis has to begin with a close description of these strategies in the face of European integration.

The major decisional steps for a company operating in a EU country are the following:

- (a) whether, and to what extent, to integrate marketing strategies at the European level;
- (b) whether, and to what extent, to integrate advertising strategies at the European level.

Although the second decision directly influences advertising agencies' activities, it greatly depends on a company's marketing strategy. For this reason, an evaluation of the effects of the single market on the structure of the advertising sector cannot disregard the importance of marketing decisions and the legislative measures impacting on them.

This part of the report first considers the main characteristics of the two decisions, and then the process of Europeanization.

For an increasing number of industries and companies the single market has become, or is becoming, the natural competitive horizon. The nature and potential of the single market has led companies to adopt a European strategic profile. The abolition of physical, technical, fiscal and legal obstacles to trade has considerably reduced the costs of marketing all over Europe. The opportunities presented by a wider, culturally converging market in which every barrier was going to disappear, led more and more companies to regard Europe as one market. Concepts such as Euro-segment, Euro-marketing,¹¹ Euro-brand and Euro-advertising, which emerged in the marketing literature of the last ten years, have a common denominator in the adoption of a regionally oriented vision.

The first companies to adopt this approach were large European, US or Japanese multinational companies which, by the 1970s, were already operating in a competitive environment in which the globalization of markets was the basis of their strategic mission. These companies, thanks to their wider managerial and financial resources, and thanks also to a 'global vision' of competition, were the first to foresee the considerable advantages of the single market.

During the 1980s, when the advantages of European integration were increasingly evident, small and medium-sized companies and/or less internationally oriented companies, began to understand the benefits of considering Europe as one market. The result was that an increasing number of companies which, while integrating their production and marketing strategies at the European level, achieved competitive advantages on a larger scale than would have been possible if they had acted either solely in their market of origin or in each EU market individually. These competitive advantages consisted of significant cost savings, improved planning and control, greater consistency in the companies' dealings with customers, and better capacity to exploit synergies, ideas and talents.

¹¹ A. Foglio [1994] describes Euro-marketing in the following words: 'Euro-marketing strategy is the whole of the fundamental choices through which a company seeks to achieve the Euro-market in the best way', or 'Euro-marketing derives from the link between the marketing mix and the single market, represented by the Euro-segment a company wants to conquer'.

Thus, 'ethnocentrism' (orientation towards a company's own country of origin) and 'polycentrism' (orientation towards individual markets with a specific approach for each of them) seem to have given way to a regionally oriented vision. This is a strategic orientation which has many countries (all EU countries eventually) as a reference, and are collectively considered as one large market. Within this large market, companies act by exploiting increasingly convergent legislation, competitive forces, infrastructures, and consumer behaviours. Such a strategic approach has its most tangible expression in the establishment of European headquarters, which are intended to co-ordinate activities across Europe.

Two cases from the 1980s and 1990s clarify the meaning of this kind of choice.

In 1988 the Japanese automotive company Nissan formulated a strategic plan designed to strengthen its competitive position while waiting for the 1992 European market integration. The integration of European markets was to liberalize the movement of products, services, persons and capital within the Community, and to consolidate technical standards which had hitherto been decided by individual Member States. Market integration was expected by analysts to intensify competition in the automobile industry. Therefore, in preparing for 1992, automotive companies worked hard to expand, modernize, or reallocate their production plants.

Nissan's principal strategic goals were to increase its market share, improve its brand image, and further decentralize the responsibility for its European operations, including product design, production, and marketing. According to the strategic plan, Nissan's sales increase in Europe was to be accomplished mainly through its UK-made cars (the company had founded Nissan Motor Manufacturing UK Ltd as a local subsidiary in 1984 and built a factory in Sunderland, near Newcastle, in 1986). This was done because exports from Japan had to contend with trade restrictions, political friction, and a decrease in per unit contribution and price competitiveness due to the appreciation of the yen.

In order to co-ordinate European operations, Nissan established a European Technical Centre (NETC) in the United Kingdom in 1988 and planned to start Nissan Europe NV in the Netherlands in 1990. Whereas Nissan had previously developed all its products in Japan, it was intended that the NETC would, through the combined efforts of Japanese and European staff, produce new cars to meet European consumer needs. Nissan Europe NV was to be responsible for co-ordinating all development, production, logistics, and marketing in Europe, most of which had previously been carried out in Tokyo. Further, it was to formulate the overall marketing strategy for Europe, instead of this being done by the Europe Sales Group in Tokyo. Distributors in each country were to continue to draft national marketing plans that would be integrated with the regional plan (Quelch, Kashani, Vandermerwe [1994]).

A similar course is currently being followed by another automotive company, Chrysler. Having left the European markets in the 1970s and returned to them in 1986, the company is strengthening its market position through a better co-ordination of European activities. The construction of a European headquarters in Brussels is planned for 1996, from which to co-ordinate production (Chrysler has two factories in the EU: in Austria and in Spain) and marketing strategies. The headquarters will also have responsibility for non-EU countries, such as those of Eastern Europe.

Although the above examples relate to the automotive industry, it is not the only sector characterized by an intense utilization of pan-European marketing strategies.

The field research focused on the FMCG, youth, luxury and business-to-business sectors, but the results do not differ from the picture depicted above. There is a trend towards the centralization of decision-making centres, and the closer co-ordination of managers operating in the various countries.

The interviews emphasized the whole decision-making process in order to identify to what extent client choices contribute (directly and indirectly) to the increasing internationalization of the advertising services sector (Figure 4.1).

Respondents were asked to define the relationship between each subsidiary and the headquarters, in relation not only to marketing activities but also to the other principal functions within the company such as finance, R&D, production, sales and personnel.

With respect to the centralization/decentralization alternatives of the decision-making process, the interviewees were asked to choose between three alternatives: mostly decentralized ('I have extensive decision-making autonomy for my operations', rate 1), somewhat co-ordinated ('On issues with regional implication, decisions are made within European teams. I have autonomy only for operations that affect my country exclusively' or 'I am an integrated player with regional headquarters. On issues with regional implication, I provide input for decisions made at these headquarters. I have autonomy only for operations that affect my country exclusively', rate 2), mostly centralized ('I implement decisions made at regional headquarters', rate 3).

Between centralization maximization and decentralization maximization there is a significant co-ordination differential, which varies from company to company, and is conceived differently in the several management cultures in Europe. For instance, in some countries maximizing the level of centralization implies single management and perfect homogeneity in the interpretation. This means that a decision is supposed to produce the same effects at every level in the headquarters and in subsidiaries. In other management cultures, the same concept has a more 'probabilistic' interpretation, or even an approximate one. This means that a centralized decision could produce different co-ordination effects, so that it could be very centralized, but scarcely co-ordinated.

The results of the interviews (Table 4.1) demonstrate clearly that almost all the companies centralize R&D and production functions. The finance function is also centralized or at least somewhat centralized in most cases. With respect to marketing activities, however, the majority of the companies analysed fit better into the definition of 'somewhat co-ordinated'. Last, the sales and personnel functions are the most decentralized in the majority of cases. Although the questions were not phrased in quantitative terms, it is important to emphasize that the majority of the companies testified to an evolution in all the functions, towards increased co-ordination of decision-making.

Marketing activities, as outlined above, tend to be somewhat co-ordinated in the majority of the cases. To gain a deeper insight into this, the companies were asked about each of the elements of the marketing mix. Company attitudes towards standardization and local responsiveness alternatives in their marketing policies were focused on. A scale of 1 to 4, with the following alternatives, was employed:

- (1) strategy based on standardization: exploitation of similarities among target groups in all the Member States covered;
- (2) combined strategy of standardization/adaptation: division of Member States into two or more groups of 'most similar' countries;
- (3) combined strategy of standardization/adaptation: standardized strategy with minor adaptations for different countries;
- (4) strategy based on adaptation: activities performed in a fundamentally different way in each country.

The analysis of the results (Table 4.2) shows that the situation varies widely, and it is not easy to draw general conclusions. One point, however, is clear: most of the company strategies with a higher level of standardization are applied to the management of the product itself (brand name/logo, design formulation, packaging and labelling). Pricing, distribution and consumer services, however, are more locally adapted (all three above 2.6 in 1995). Slightly less centralization is applied to communication strategies (from 3.09 in 1985 to 2.56 in 1995) which stand between the two alternatives, with a combined standardization/adaptation strategy.

The breakdown by sectors provides a clearer overview. In nearly all the activities of the marketing mix, the FMCG sector companies have the lowest levels of standardization, followed by the business-to-business companies. The companies operating in the youth and luxury sectors are some way ahead. The greatest shifts, from the point of view of increasing standardization, have taken place in the FMCG and business-to-business sectors, since the marketing strategies of the youth and business-to-business sectors were already significantly standardized in 1985.

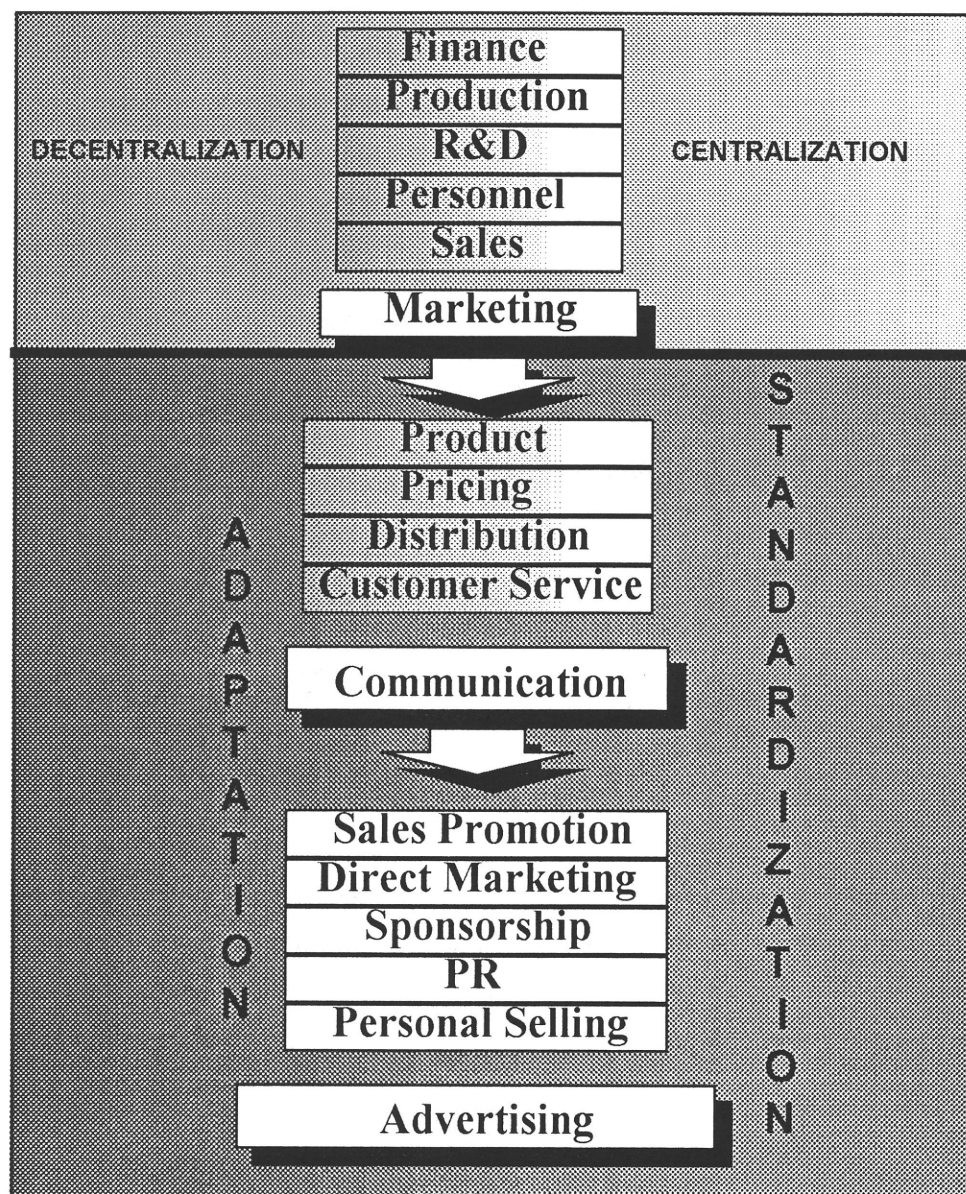
Table 4.1. Centralization/decentralization of the decision-making process in the EU companies (Scale: 1. Mostly centralized, 2. Somewhat co-ordinated, 3. Mostly decentralized)

Activities	Average	
Finance	1.67	(49)
Production	1.58	(46)
R&D	1.37	(45)
Marketing	1.87	(50)
Sales	2.37	(51)
Personnel	2.02	(48)

NB: Number of reliable answers in parentheses.

Source: Bocconi University.

Figure 4.1. Advertisers' fundamental choices between centralization/decentralization and standardization/adaptation



Source: Bocconi University.

Table 4.2. Standardization versus adaptation in the EU companies' marketing strategies (Scale: 1. Strategy based on standardization, 2. Combined strategy of standardization/adaptation, 3. Combined strategy of standardization with minor adaptation for different countries, 4. Strategy based on adaptation)

Activities	1985	1990	1995	Trend	Forecast next 5 years
Product					
(a) brand name/logo	1.72 (34)	1.44 (36)	1.47 (49)	↓	1.50 (43)
(b) design formulation	1.88 (31)	1.94 (34)	1.52 (46)	↓	1.44 (38)
(c) packaging and labelling	2.09 (33)	1.74 (34)	1.77 (47)	↓	1.65 (40)
Pricing	3.03 (33)	3 (35)	2.69 (49)	↓	2.44 (41)
Distribution	3 (33)	2.82 (35)	2.62 (49)	↓	2.39 (39)
Customer service	3.23 (34)	3 (36)	2.65 (50)	↓	2.46 (42)
Communication	3.09 (32)	2.83 (34)	2.56 (48)	↓	2.48 (42)

NB: Number of reliable answers in parentheses.

Source: Bocconi University.

4.2.2. European advertising strategies: the standardization versus adaptation alternatives

Advertising standardization at an international level is a fundamental issue for explaining the internationalization of advertising agencies. It has been demonstrated that the internationalization process of advertising agencies derives from the use of standardized advertising campaigns. For this reason, the next pages consider the standardization/adaptation alternatives of international campaigns. This is probably the most frequently recurring theme in the advertising debate and research.

Academics and practitioners have long been divided over the advisability of using standardized or localized advertising approaches in international marketing and advertising.

The literature has offered diametrically opposite views. Advocates of standardization such as Elinder [1961], Fatt [1964] and Levitt [1983] hold that firms have successfully transferred their advertising campaigns, and that standardized themes have provided unified brand images world-wide. Proponents of localization point out that most of the mistakes in international advertising occurred because advertisers failed to understand foreign cultures (Hornik [1980]).

Research over the last two decades has produced controversial results, whose significance has often been compromised by sample inadequacies. Some research showed an increasing use of the standardized approach (Michell and Bright [1995] on UK advertising agencies), while other work showed a return to adaptation (Kanso [1992]).

The controversy over standardization, and the absence of any consensus in research evidence, is explained by the fact that the concept of standardized advertising has often been applied too superficially. The analytical approach assumed in the present research, avoids *a priori* positions and is more balanced. An attempt was made, through the interviews, to discuss

standardization versus adaptation in terms of a continuum of possible solutions, to be adopted after careful analysis of their advantages and disadvantages (Banerjee [1994], Wolfe [1991]).¹²

The field research confirms the correctness of a balanced approach with regard to these two alternatives. This does not mean, however, that the question is clear-cut: when referred to a single client it should be considered as a continuum in which different choices can be made in different areas of activity. When referred to the European market as a whole no clear trend can be identified.

Banerjee is correct to argue that 'the key issue is not merely to ask whether "to standardize or not to standardize" but additionally and more importantly, to ask a more meaningful set of questions: "What elements should be standardized?", "To what degree and to what geographical extent should they be standardized?" "What is the effect of the above-mentioned decisions on the advertising agencies' added-value chain?"'.¹³

The research has tried to provide a descriptive answer to this fundamental question by investigating how European communication strategies have modified their approach over the last ten years, by reference to the strategies mentioned earlier: where (1) coincides with strategy based on standardization and (4) coincides with strategy based on adaptation.

The research information (Table 4.3) does not allow us to conclude that EU companies' choice of advertising and other communication tools is moving either towards standardization, or towards adaptation. Nevertheless, some conclusions can be drawn. In choices involving the leading communication investments (advertising and direct marketing), there is a trend towards increasing standardization. In the advertising services the degree of standardization tends to mirror fluctuations in value chain activities – the more upstream the activities in the value chain, the greater the standardization.

The need to consider advertising standardization/adaptation as a continuum which contains a large multiplicity of suitable approaches, can be well demonstrated through some cases which emerged during the research.

¹² G. Albaum et al. [1994] identify two main forms of standardization: 'One version is *prototype* standardization, in which the same advertisement or campaign would be used in multiple markets with the only difference being language translation and perhaps even a few idiomatic changes (...). In contrast to prototype standardization is *pattern* standardization, which is more planned and flexible. Under pattern standardization, the advertising campaign, including its overall theme and its individual components, is designed at the outset for use in multiple markets and is developed to provide a uniformity in direction, but not necessarily in specific detail.'

¹³ The marketing and advertising approach identified in the field research is effectively summarized as follows: 'Global reach and local touch' (Zandpour [1994]), 'Glocalization' (Banerjee [1994]), etc. Banerjee [1994] explains this approach in the following terms: 'The astute multi-country advertiser chooses to follow a transnational, global approach: by thinking globally, acting locally, and managing regionally.'

Table 4.3. Standardization and adaptation communication activities (Scale: 1. Strategy based on standardization, 2. Combined strategy of standardization/adaptation, 3. Combined strategy of standardization with minor adaptation for different countries, 4. Strategy based on adaptation)

Activities	1985	1990	1995	Trend	Forecast next 5 years
Advertising					
(a) definition of objectives and target	2.94 (32)	2.43 (36)	2.14 (46)	↓	1.86 (44)
(b) creative approach	2.97 (35)	2.44 (40)	2.43 (50)	↓	2.22 (44)
(c) campaign production	3.03 (35)	2.49 (40)	2.51 (49)	↓	2.20 (43)
(d) media planning	3.37 (35)	3.21 (39)	3.35 (50)	□	3.09 (45)
(e) media buying	3.42 (36)	3.26 (39)	3.45 (50)	□	3.19 (44)
Sales promotion	3.38 (29)	3.27 (32)	3.51 (44)	↑	3.32 (42)
Direct marketing	3.50 (19)	3.37 (21)	3.38 (31)	↓	3.00 (29)
Sponsorship	2.67 (25)	2.66 (29)	2.79 (37)	↑	2.44 (33)
Public relations	2.93 (30)	2.85 (35)	2.88 (44)	□	2.70 (39)

NB: Number of reliable answers in parentheses.

Source: Bocconi University.

American Express (AMEX) Europe, although operating in the credit card sector, which historically has had a very fragmented cultural background across Europe, has spent the last two years restructuring its operations to provide central control. Instead of having complete marketing teams in each country, it now has a core team in the London office.

AMEX's agency, Ogilvy & Mather, has mirrored this structure by establishing a core service team in London which includes a senior member who, as brand steward, is responsible for brand advertising. The bulk of brand advertising coming from O&M New York, is implemented across Europe by the London team. The implementation does not preclude adequate adaptation. The continuing testimonial campaign is a good example of bringing the best of a world-wide template to represent what is appropriate locally. The people featured in the advertisement were selected by local O&M and AMEX offices on the basis of their local fame. As O'Keeffe, O&M London's regional management supervisor for AMEX Europe, says: 'AMEX as a brand has basic core values which you apply in every market, but the products and services offered and the emotional response to credit cards vary from market to market, so we have to decide what we can do which remains true to the world-wide positioning of the brand and is appropriate for the financial service category in a particular market.'

A similar case concerns Pomellato, a very prestigious Italian company producing and selling jewellery. Although it operates in a very homogeneous European market with a standardized marketing and advertising approach, the company executed a transnational testimonial press campaign, with an appropriate balance between standardization and adaptation. The creative department of the company (Pomellato uses McCann Erickson Italia for every advertising service both in Italy and abroad, but not specifically for creative treatment) built up a unique strategic and creative platform which required local adaptation in terms of the right testimonials to be 'put on air' in the different countries.

Both for AMEX and Pomellato the basic advertising strategy is: standardization but within certain limits.

A US-based company offers an opposite exemplary case of what is happening in the field. Nike Europe, although operating in the highly homogeneous sport and youth segment, is currently moving away from a centralized structure and standardized advertising policy. To cater for a less centralized structure, Nike's main agency in Europe, Wieden & Kennedy Amsterdam, is in the process of setting up satellite offices in France, Spain, and Italy. This structure will permit more country-tailored advertising campaigns. Even though global advertisements featuring well-known athletes are run in every market, these have to be supplemented with more locally-driven advertising because of the different situations in different markets. Nike and Wieden & Kennedy's intention is to achieve the benefits of a balanced approach by using the power of the centre without stifling creativity in local markets.

The above cases, as well as many others, can be further understood when included in the empirical framework emerging from the interviews with advertisers, grouped by their leading sectors of activity (Table 4.4).

Once again, some conclusions are confirmed (see also Figure 4.2):

- (a) the highest degrees of Euro-standardization are achieved in the luxury and youth sectors, which face high cultural homogeneity in their markets, making standardized advertising more effective and efficient;
- (b) in all sectors and activities there is a trend towards increasing standardization;
- (c) the widest shifts occur in the sectors which are traditionally less standardized: business-to-business and FMCG, where the search for greater economies of scale and the exploitation of the same brand image across Europe have become more and more important strategic objectives;
- (d) on the other hand, luxury shows significant evidence of standstill, due either to its previous achievement of a high degree of standardization (definition of objectives and target, and campaign production), or to the existence of considerable barriers to further standardization (media planning and buying); the same is true for youth as regards media planning and buying. Many interviewees suggested that further considerable increases in standardization would not derive from further cultural homogeneity – since this is already high – but from a significant reduction of legislative and operational barriers;
- (e) a considerable difference exists between the average degree of standardization of strategic planning, creative approach and campaign production, on the one hand, and media planning and buying activities, on the other.

Besides exploring the orientation towards standardization or adaptation, the research studied the basic reasons for the current trend by identifying the principal benefits which companies are seeking.

As regards standardization, the following results were obtained by adopting a 1 to 5 scale (1 being 'not important' and 5 'very important'), and collecting answers from both the advertisers and the advertising agencies (Figure 4.3). In both cases the most important benefits are (a) 'the exploitation of the same brand image across Europe' and (b) 'economies of scale in campaign production'. Of much less significance are benefits connected with the

relationship with advertising agencies; and less still benefits relating to the relationship with the media.

Table 4.4. Communication activities between standardization and adaptation (scale: 1. Strategy based on standardization, 2. Combined strategy of standardization/adaptation, 3. Combined strategy of standardization with minor adaptation for different countries, 4. Strategy based on adaptation)

Activities	Year	B-to-B (18)	FMCG (18)	Luxury (9)	Youth (8)
Advertising		Average	Average	Average	Average
Definition of objectives and target	1985 (32)	3.54 (13)	2.91 (11)	2 (5)	2.50 (3)
	1990 (36)	3.08 (14)	2.42 (12)	1.86 (7)	1.60 (3)
	1995 (46)	2.44 (16)	2.06 (18)	2 (9)	1.83 (4)
	next 5 (44)	2.13 (16)	1.57 (15)	2 (9)	1.50 (4)
Creative approach	1980 (35)	3.36 (13)	3.45 (11)	1.67 (6)	2.25 (5)
	1990 (40)	3 (14)	2.83 (12)	1.43 (7)	1.50 (7)
	1995 (50)	2.69 (15)	2.67 (18)	1.78 (9)	2 (8)
	Next 5 (44)	2.38 (15)	2.67 (15)	1.44 (9)	2 (5)
Campaign production	1985 (35)	3.43 (14)	3.45 (11)	1.67 (6)	2.50 (4)
	1990 (40)	3.07 (14)	2.92 (12)	1.43 (7)	1.50 (7)
	1995 (49)	2.69 (16)	2.67 (17)	1.78 (9)	2 (7)
	Next 5 (43)	2.63 (16)	2.25 (13)	1.67 (9)	1.50 (5)
Media planning	1985 (35)	3.50 (14)	3.55 (11)	2.33 (6)	4 (4)
	1990 (39)	3.36 (14)	3.33 (11)	2.14 (7)	4 (7)
	1995 (50)	3.38 (15)	3.61 (18)	2.56 (9)	3.67 (8)
	Next 5 (45)	3.06 (15)	3.4 (14)	2.44 (9)	3.50 (5)
Media buying	1985 (36)	3.50 (14)	3.67 (12)	2.33 (6)	4 (4)
	1990 (39)	3.36 (14)	3.5 (13)	2.14 (6)	4 (6)
	1995 (50)	3.38 (16)	3.78 (18)	2.56 (9)	4 (7)
	Next 5 (44)	3.06 (16)	3.57 (14)	2.44 (9)	4 (5)

NB: Number of reliable answers in parentheses.

Source: Bocconi University.

The two leading benefits can be considered as the two strategic and logic categories that a company must confront, when considering the advantages of standardizing its advertising: effectiveness (unique brand image) and efficiency (lower costs).

An interesting consideration related to (a) was mentioned by a number of respondents. It seems that a decisive push towards standardization derives from the increased attention being paid to the 'brand' instead of the 'product' concept as part of the companies' marketing and advertising strategies.¹⁴ Since the brand concept is more wide-ranging than the product concept, it can be more easily elaborated to achieve a satisfactory degree of transnational

¹⁴ Brand usually covers a line of products and, more than the single products, it carries on a 'discourse' made up of ideas, values, promises, which express expertise and personality, establishing a relationship with the consumer, helping him/her to make a purchasing choice.

perceptive homogeneity. In fact, it can overcome the problems faced by the advertising standardization of single products, which are used in various ways in different countries.

The main benefits of adaptation have to be understood in terms of the greater effectiveness of advertising campaigns focused on specific local targets (Figure 4.4). These benefits tend to be found in nearly every area of the advertising value-added chain, but they are particularly evident in the activities related to strategic planning, where all the considerations about the target's cultural characteristics are carefully considered. Lower results are achieved by media planning and buying, which are activities typically approached through a local perspective (it is a common view, and often taken for granted, that the latter two activities are exclusively locally driven; perhaps for this reason the benefits of adaptation tend to be disregarded).

Figure 4.2. Advertising standardization vs adaptation: sectors and activities (scale: 1. Strategy based on standardization, 2. Combined strategy of standardization/adaptation, 3. Combined strategy of standardization with minor adaptation for different countries, 4. Strategy based on adaptation)

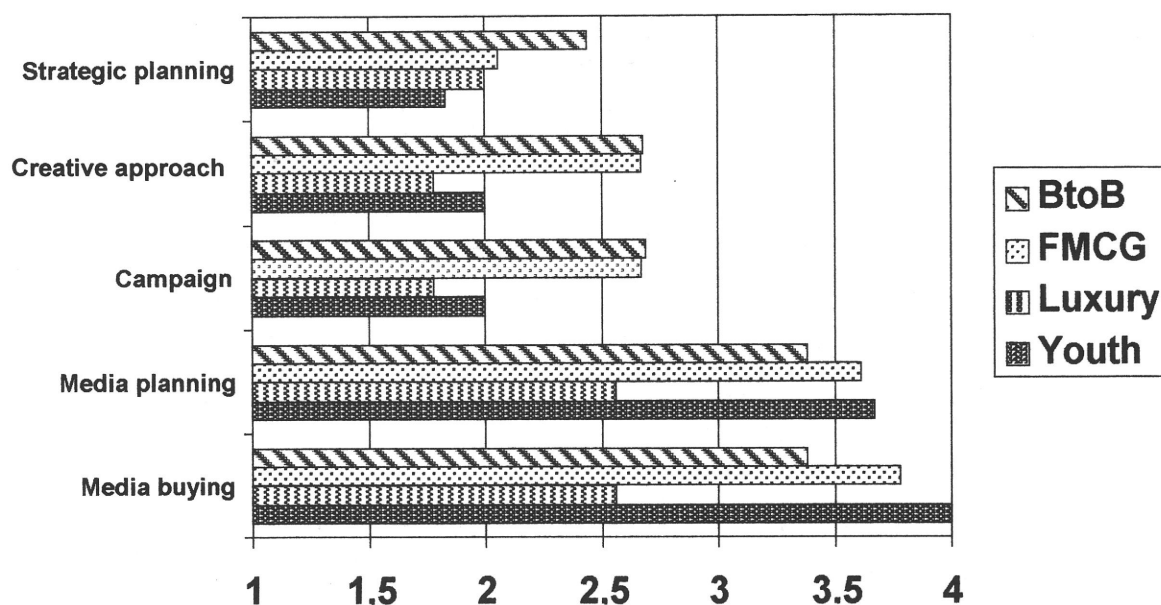
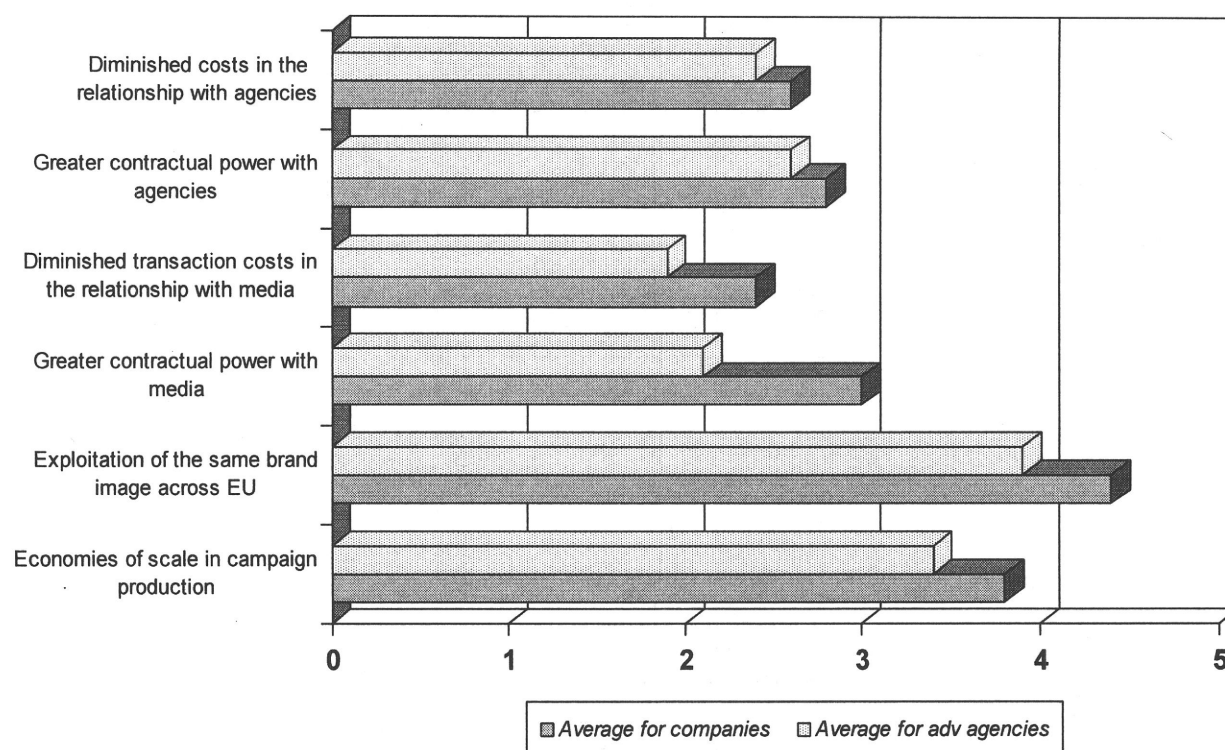
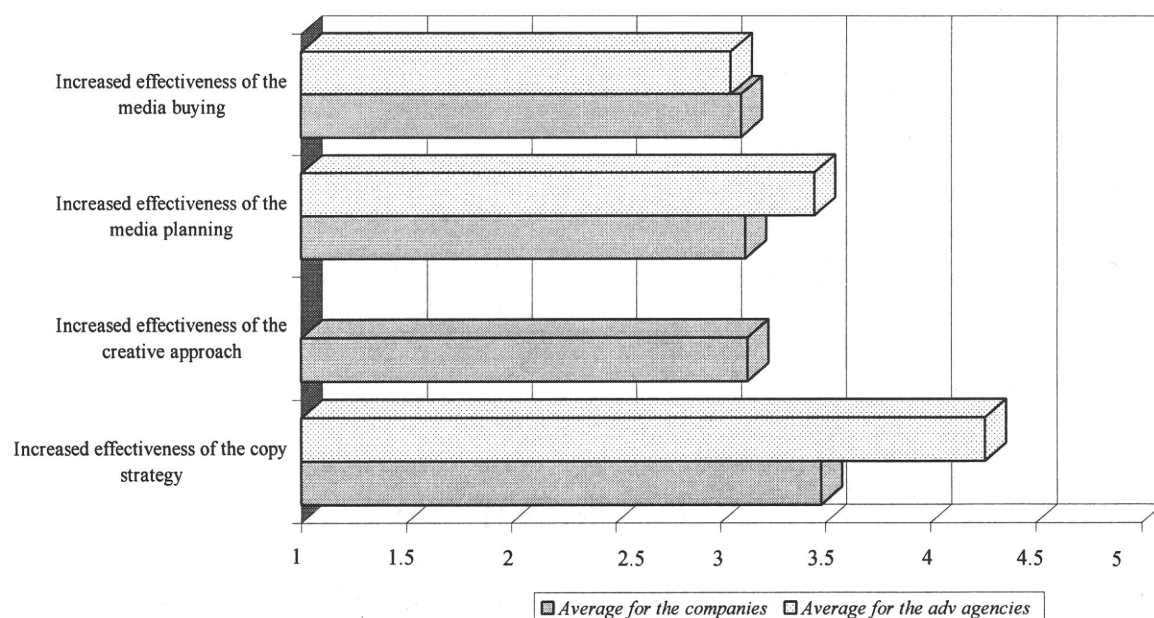


Figure 4.3. Benefits of advertising standardization (Scale: 1. Not important, 5. Very important)



Source: Bocconi University.

Figure 4.4. Benefits of advertising adaptation (Scale: 1. Not important, 5. Very important)



Source: Bocconi University.

4.2.3. Cultural and language barriers to standardization

Most of the respondents evaluated cultural differences among European countries as the main obstacle toward a greater standardization of their advertising strategies. In all the questions we asked advertising agencies, advertisers and media operators related to the factors impacting on opportunity and the obstacles to adopting a transnational perspective, cultural dimension achieved the top rank, with no important differences by sector of activity, size or country (Table 4.5 with the companies' answers, Figure 4.5 and Tables 3.2 and 3.3). However, as Figure 4.5 shows, the impact of cultural convergence is expected to grow in the future (indeed, this is confirmed for media development and the regulatory framework too, thus indicating the high degree of expectations advertisers have of the future).

The importance of social and cultural convergence/divergence calls for further analysis of this phenomenon. For this reason, it was decided to make some observations on the relationship between social and cultural convergence, and the level of advertising standardization in Europe. This subject was developed through a theoretical framework and some cases concerning multinational companies. Historically, European and US multinational companies, particularly the latter, were the first to experience advertising standardization strategies before European integration. Thanks to their greater managerial and financial resources, and because of their traditional 'global vision' of markets, they often anticipated pan-European strategies, which later became possible for smaller companies as well, due to the increased advantages of single market.

Table 4.5. Factors preventing advertising standardization according to the companies
(Scale: 1. Not important, 5. Very important)

Issues	Average				
	B-to-B (19)	FMCG (18)	Luxury (9)	Youth (8)	Total (53)
Different national laws	1.65 (18)	2 (18)	1.83 (9)	2.83 (7)	2 (52)
Marketing communication tools	2.76 (17)	2.54 (18)	1.71 (7)	2.29 (7)	2.57 (49)
Different media system	2.81 (16)	2.43 (18)	3 (7)	3.14 (7)	2.83 (48)
Different media buying habits	2.31 (16)	2.44 (18)	2.50 (8)	2.71 (7)	2.50 (49)
Absence of harmonization in media research methodologies	2.07 (16)	2.25 (15)	2.38 (8)	2.60 (7)	2.31 (46)
Absence of harmonization in the field of sales promotion	1.08 (15)	2.40 (18)	1.88 (8)	2.60 (6)	2.17 (47)
Absence of harmonization in the field of comparative advertising	2.38 (17)	2.40 (17)	1.83 (8)	2.17 (6)	2.33 (48)
Different languages	3.74 (19)	3.35 (18)	3 (8)	3.57 (7)	3.54 (52)
Different cultures	3.56 (19)	3.38 (18)	3.66 (8)	3.57 (7)	3.57 (52)

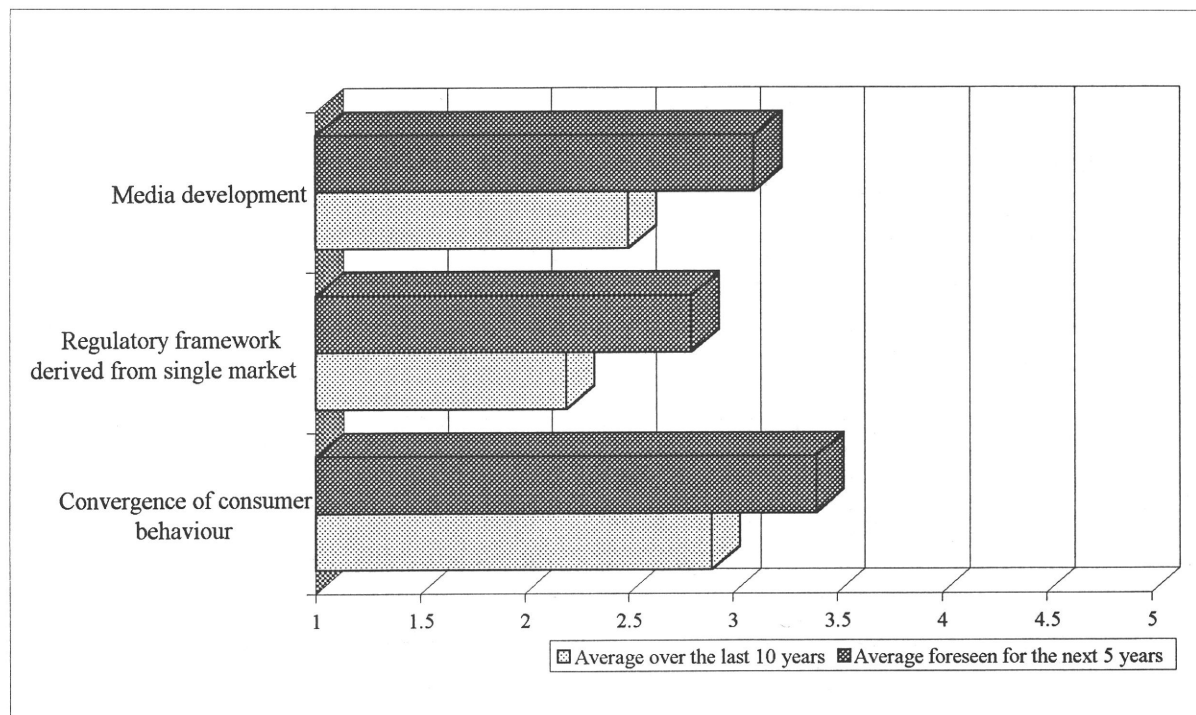
NB: Number of reliable answers in parentheses.

Source: Bocconi University.

As for the theoretical model (Figure 4.6), which can be given either descriptive or prescriptive value, it describes the choice of standardization/adaptation of advertising in Europe as a sequence of three fundamental logical steps. In all these steps we focused our attention on the existence of homogeneity/heterogeneity across Europe with regard to the three cultural conditions which are the most important in determining the choice of advertising standardization at an international level. The three steps are proposed as questions asking for a 'yes/no' answer. Obviously, a theoretical abstraction is made, for the cultural factors considered tend to lie on a 'continuum' – the extremities of which are perfect homogeneity and perfect heterogeneity of cultures in different Member States. It is because of this abstraction that the model becomes effective in determining our reasoning.

- (1) In the first step of the model, we take into consideration the existence/absence of a convergence of consumer lifestyles and attitudes toward the product in different Member States. The latter concept summarizes all the opinions, attitudes and beliefs developed by consumers of each country towards a certain category of product. The development of beliefs and attitudes conditions communication strategies in terms of potential values and the principal benefits associated with them in advertising (i.e. people in one country associate sensitivity rather than virility with razors). On the other hand, the lifestyles concept expresses the principal social trends occurring in a specific country (i.e. upper-class men in a country could have an increasing interest towards values expressing sensitivity and tenderness), which are very important in planning a communication strategy too.

Figure 4.5. Factors fostering advertising standardization according to the companies
(Scale: 1. Not important, 5. Very important)



Source: Bocconi University.

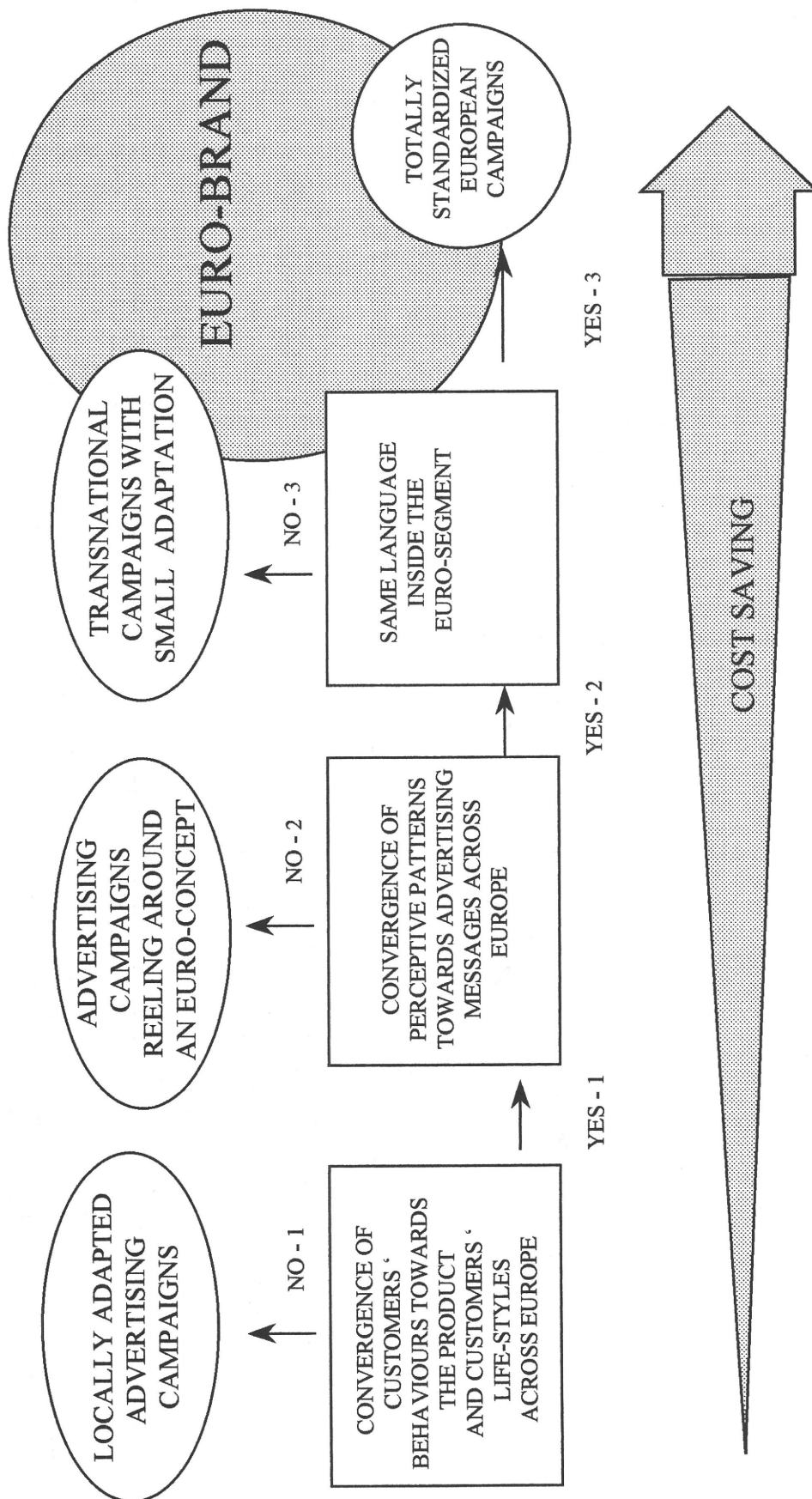
At this level we meet the necessary condition for undertaking a transnational campaign. Only if there is homogeneity in both consumer behaviour and lifestyles (YES-1) is it possible to think about a standardized campaign. In the opposite case (NO-1), campaigns can only be national or, at most, standardized within limited groups of countries.

The first step towards standardization occurs when identical copy strategies¹⁵ and positionings are made for the whole of Europe; but this is possible only if the advertiser can associate the product/brand with the same principal benefit and socio-cultural values. As an example, some years ago ecological values were not developed to the same degree in different Member States: a campaign associating a company or a product with (the value of) 'respect for the environment', would have had very different levels of effectiveness in the various countries.

The possibility of approaching the YES-1 choice is extremely important, since it is just with the definition of European positionings and copy strategies that companies generally decide to use a European advertising agencies network. In this case, the primary creative issues of the campaign are centralized in a single agency (generally the European headquarters, which works very close to the investor's headquarters), with consequent exploitation of scale and scope effects in the strategic, creative and productive functions.

¹⁵ The copy strategy is the document that sums up the advertising strategy and its creative translation.

Figure 4.6. From adaptation to standardization in advertising campaigns: a general model



Source: Bocconi University.

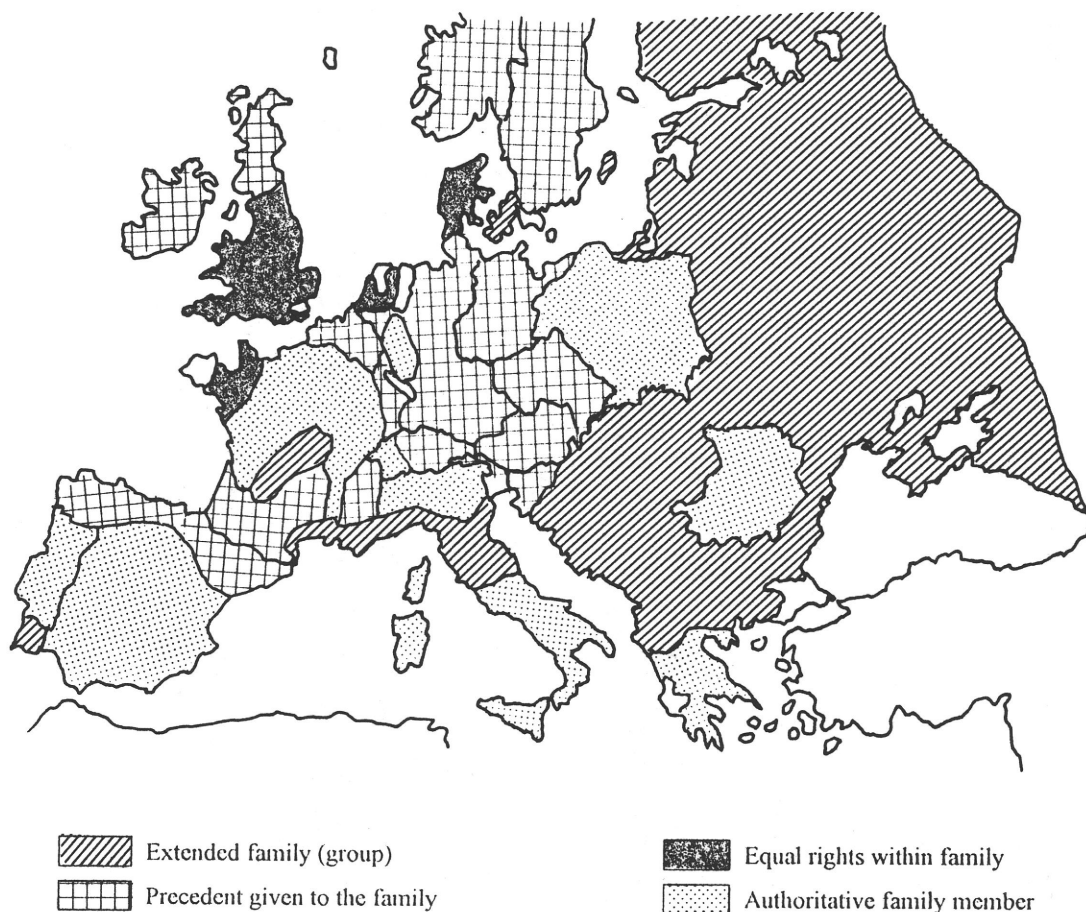
At this step the potential of cross-border clustering is of fundamental importance. As emphasized by Vandermerwe [1993]: 'Instead of either one, homogeneous market or a collection of small specialized markets, the most likely model for the future mass Europe is a market system consisting of regional Euro-clusters with consumers geographically close but not necessarily living in the same country. They will have the same or similar economic demographic and/or lifestyle characteristics, which cut across cultural and national boundaries, and they will display similar needs and purchasing behaviour.'

Using cultural or lifestyle characteristics as segmentation variables for European customers instead of a geographic variable (strictly speaking, the country of origin), it is possible to determine transnational areas within which purchase processes are similar.

The transnational areas obtained through this method are mainly: central Europe, Mediterranean Europe, northern Europe and the Paris-Milan axis. Another important transnational area includes the UK, Denmark, the Netherlands and the west of France.

With regard to this, see the research carried out by Judy Lannon which was presented during the European Association of Advertising Agencies Conference, held in Milan in June 1988.

Figure 4.7. The European consumer in the year 2000



Source: Judy Lannon, European Association of Advertising Agencies Conference, Milan, June 1988.

The awareness of convergence in the purchase processes at a transnational level stimulates the adoption of cross-border campaigns. This implies a radical change in the planning and organization of advertising campaigns.

Behaviour convergence tends to have a different intensity with regard to different large market segments. The youth and luxury markets have reached substantial uniformity in social and cultural factors of transnational targets. In these sectors strategic planning (definition of communication objectives and target) is characterized by a higher degree of standardization.

A notable level of behavioural uniformity can also be associated with the business-to-business markets (even if language is still considered an obstacle by some companies). This happens because of two major behavioural factors. The former is linked to the high levels of rationality in purchase decision processes, and the latter to the fact that purchase decisions take place in increasingly international buying groups.

FMCG markets, however, are characterized by greater differentiation. The food and beverage industry – one of the largest advertising investor sectors – still has difficulties in formulating Euro-marketing and Euro-advertising strategies because of consumer behaviour differences. The results of the field research show that the situations of the various companies differ greatly, and it is not possible to draw general conclusions. There are companies with brands such as Coca Cola, Nescafé and After Eight, which either appeal to cultural trends that are similar in different countries, or at least, do not offend against local food and drink values. For these companies, especially the very large multinationals such as Procter & Gamble, Unilever or Coca Cola, differences in the cultural framework are less important. For other companies, especially those maintaining a strong link with their country of origin (Barilla, for example), cultural differences are considered more important.

- (2) Once the possibility of a single positioning in Europe has been verified, the further key question concerns the shared patterns of perception and design of advertising messages in different Member States. The importance of this second step comes from the consideration that Euro-advertised products, though referring to the same values and principal benefits everywhere, express them through different 'appeals'. Such 'appeals' have to be consistent with the prevailing perceptions and design patterns in each country.

This second step can result in two different choices. While NO-1 leads to campaigns which are totally tailored to the cultural patterns of different countries, NO-2 relates to Euro-concept products. These are products based on a European concept which affords a certain scope for variations in the advertising and presentation of brands in different countries, provided that the overall fundamental positioning and consumer promise are the same everywhere.

The advertising strategy adopted for several years by Unilever's 'Captain' range of frozen products, in Europe and all over the world, provides a good example of a Euro/international brand. This range of products, although having an identical positioning everywhere ('natural seafood with an excellent taste, that is easy to prepare and especially favoured by mothers, who want only the best for their children'), has different local adaptations. Strategic uniformity extends as far as the leading creative treatment, but only in these terms: 'the Captain, his ship, the location, the children and the music are evidently fixed elements in any "Captain" commercial, but the emphasis in

one scene or another can be planned and, if necessary, modified, in accordance with the wishes of the local companies' which derive from the needs of their respective markets. The advertisement had to be re-made in Austria, because Austrian law bans the use of children in advertisements. This mix between standardization and adaptation, by virtue of the very strong ties between the elements of the marketing mix, is important for the packaging and the name, too. The former is not the same everywhere, but always displays two identical elements: a picture of a smiling captain looking through a porthole, and a picture of the product with a description of it. The name of the range may be Captain Igloo (in Belgium, France, Germany, the Netherlands, Portugal, and Spain), Captain Birds Eye (in Ireland and the UK), or Captain Findus (in Italy). Unilever Food executives believe that consumers will not identify the Captain by a particular name, but rather with their notion of what a captain personifies and should look like. Hence, all the different 'Captains' will be seen as archetypal seafaring fatherly figures, ensuring a uniform international image.

- (3) The overcoming of the second step makes a further advance towards standardization possible. Whereas NO-2 contemplates campaigns centred around a Euro-concept – for which the economies of scale and scope are mainly focused on strategic activity – the attainment of YES-2 makes it possible to develop real Euro-brands: products that are intrinsically and visually identical all over Europe. Standardization of Euro-brand advertising is very high and produces significant economies of scale and scope at the creative and productive levels (Figure 4.3 shows that, according to both advertising agencies and advertisers, the exploitation of the same brand image across Europe is a very important factor).

In the presence of a Euro-brand it becomes more and more profitable to employ only one agency with its own European network. In such a case a project team is usually formed in the agency headquarters to create transitional campaigns, and to co-ordinate advertising subsidiaries' activities. Brands such as Unilever's Lux toilet soap, Marlboro of Philip Morris (Rijkens [1992]) or, more recently, Benetton, are some of the most famous Euro-brands. With regard to the latter, it should be noted that Benetton's media spending is very low and that the company benefited from regulatory differences to obtain media coverage.

For Euro-brands, there is an alternative which affects their degree of standardization. It concerns the existence (YES-3) or absence (NO-3) inside the Euro-segment of a common language. In the case of absence (i.e. Lux toilet soap), other adaptations are required (translations, dubbing, etc.).

The question about language leads on to two themes of great interest.

The first one concerns the growing use of visually-oriented, image-based advertising designed to overcome the constraints of language differences across Euro-segments (e.g. Levi's, Benetton, Calvin Klein, etc.).

The second observation concerns the fact that the employment of a unique European advertising format – as well as increasing the scope and scale economies in production – facilitates the centralization of media strategy, planning and buying. If infrastructural conditions were satisfactory in terms of the availability of pan-European media, standardization and subsequent scale and scope effects could move from the strategic and creative area towards media functions. Although the European legislative framework is moving in the right direction and therefore encouraging standardization,

there remain numerous regulatory barriers as outlined earlier in this report. Furthermore, there are still only a few pan-European media. Their development seems to encounter significant difficulties in covering a wide market due to this cultural divergence.

Social and cultural convergence across Europe have a notable impact on the relationship between pan-European media and the degree of standardization of cross-border campaigns. Such an impact can be better understood by looking at some specific industries and targets. Cultural homogeneity across young people is the basic reason for the high advertising standardization in youth, and at the same time it is the cause of the profitable creation of pan-European media addressed to the same target (i.e. MTV and partly Eurosport). Between pan-European media and brands operating in the youth segment, there is virtual interdependence. The former make it possible for the latter to transmit highly standardized campaigns all over Europe; while the latter permit the economic development of the former through investment. The same is true for the luxury and business-to-business sectors, with reference to various media (i.e. inflight magazines, some Anglo-Saxon reviews such as *Newsweek* and *Financial Times*).

4.3. Media developments

4.3.1. The evolution of the media system

In the last ten years the media providers' sector has gone through a period of important change. The following major trends are observable:

- (a) increasing media fragmentation/specialization due to the birth of many new vehicles (channels, newspapers, magazines, etc.);
- (b) increasing concentration of media ownership;
- (c) development of pan-European media;
- (d) emergence of television as the main advertising medium, and the gradual overtaking of the printed press, due to the development of private television.

Apart from point (b), which is dealt with in Section 5.4.4, and point (d), which is analysed in Section 5.4.2, each of these issues will be considered in more detail below.

Media fragmentation/specialization and birth of new vehicles

The number of national and international television channels in the European Union has grown steadily in the last 15 years. This growth can be explained partly by the considerable technological developments that have taken place in these years; and partly by the establishment of a common legal framework which, however limited, has encouraged the media industry to organize itself so as to benefit from an expanded geographic and economic market.

The birth of new channels has also been accompanied by a growing level of specialization of TV vehicles. New *thematic* patterns of specialization have replaced the traditional geographic models of specialization (local, national and transnational). An increasing number of mono-thematic channels have emerged: Eurosport and Telepiù 2 (sport), Euronews (news), Arte (culture), Ciné Cinéfil, Ciné Cinéma and Telepiù 1 (cinema), Videomusic (music), QVC (teleshopping), etc. This evolution is judged very positively by advertising investors, because

channels specialized in specific items may avoid message dispersion.¹⁶ Finally, according to many experts, the development of new technologies in the near future (e.g. satellite, cable and ISDN) will lead to a greater increase in mono-thematic channels. The results of the field research show that this opportunity is positively anticipated by the companies, especially those operating in the youth sector, since it will facilitate audience segmentation.

The progressive expansion of television through satellite and cable in Europe, together with the growth in television channels, undoubtedly favours the adoption of cross-border targeted campaigns.

Of course, television has not been the only media to undergo considerable changes. Between 1981 and 1991 in Europe the number of radio stations grew from 1,800 to 8,400, newspapers from 7,000 to 8,500, and magazines from 5,300 to 10,900. For these media, increased competition has stimulated the adoption of 'niche' strategies, with the consequent development of many specialized vehicles.

The rapid growth of the Internet, and particularly the World Wide Web, has led many companies to use the Web as a tool through which they can execute cross-border campaigns. As a media for marketing, the Web offers companies the possibility to introduce a new way of executing their communication strategies. It opens a new means of direct communication in real time, and allows for the participation of all parties, accelerating the process towards ever greater interactive, personalized and relational marketing.

Development of pan-European media

As shown in Figure 4.8, media can be classified into various categories depending on the geographic reach of their target audience and the level of adaptation of their content to a particular geographic area. Pan-European media are targeted to all European countries, and have a single publisher from an operational point of view. They have centralized dissemination, which develops from a single source, and are not subject to substantial changes or adjustments to local conditions. Uniform media differ from transnational media because they are adapted to local markets. Moreover, even if they also have a single publisher, they do not have centralized dissemination. Even homogeneous media are adapted to local markets. They differ from transnational media since they generally arise out of agreements between publishers from different European countries. These media are different, but often have the same style and name. Hence, there are very similar products in terms of contents, images, and size, even if they are translated into different languages. These titles are characterized by the same name, graphics and style, and are also more or less similar in content, which is the outcome of synergies between the different publishers.

Local high spill-over media are targeted to a national audience/readership, but they are also of interest to other countries with similar cultures and the same language, and can therefore cross national borders. Finally, there are local national media, which are targeted to a national audience/readership and do not have important spill-over effects.

In recent years, the number of pan-European media and strategic agreements aimed at creating uniform media has considerably increased. Nevertheless, the penetration of these kinds of

¹⁶ There is dispersion of the message when the people reached are not included in the target group of the campaign.

media in the various countries is still very varied, and the economies deriving from centralized media buying are very small.

The field research investigated the impact of the development of the different media on media planning and buying activities. A value scale was used, where 1 means not important and 5 means very important; and, as Table 4.6 shows, a strong level of interest for all different media was obtained. In particular, new interactive media are more attractive for companies, while least interest is centred on the press.

Table 4.6. Predicted impact of the development of the media on media planning and buying (Scale: 1. Not important, 5. Very important)

	Average	
Terrestrial TV	2.62	(38)
Cable TV	2.92	(39)
Satellite TV	2.84	(40)
Press	2.38	(43)
New interactive media	3.14	(45)

NB: Number of reliable answers in parentheses.

Source: Bocconi University.

Figure 4.8. Classification of European media

Typology		TV	Press	Outdoor	Radio
Pan-European media	<i>Transnational</i>	Satellite (CNN, MTV, Eurosport, Euronews, etc.)	The European, Time, Newsweek, EuroExpansion, ENA	-	BBC
	<i>Uniform</i>		Reader's Digest (Selezione)	Avenir Dauphin	-
	<i>Homogeneous</i>	Canale Cinque, Italia Uno	Auto Europe, Elle, Marie Claire, Cosmopolitan	-	-
Local media	<i>High spill-over</i>	ZDF, TF1	Financial Times, The Economist	-	-
	<i>National</i>	Most media of each European country and, in any case, those which are not included in other typologies			

Source: Bocconi University.

The media sector has gone through a period of important changes, mainly due to technological improvements and deregulation. All these forces have allowed the development of different pan-European media whose progress is traced below.

Pan-European television

Pan-European television began to establish itself as a medium in 1987. At that time viewers and advertisers had a choice of general interest channels, such as Super Channel, and thematic channels, such as MTV music (Table 4.7).

The 1990s have seen the pan-European television market reach stability and maturity, resulting in the main channels being considered by a large number of advertisers as an important part of their pan-European media mix. The market appeals to a wider range of advertisers than does the international press, given the greater variety of the channels and programming.

The Cartoon Network reaches the 'Euro-kid'; MTV, the music channel, is aimed at a 16–30-year-old fashion-conscious audience; Eurosport's appeal varies depending on the sport being covered, from middle-class men watching rugby, to a female bias for events such as tennis and figure skating. The traditional international business audience is also well catered for by the news channels: CNN and Euronews, and NBC Super Channel which offers a mix of news, business and general interest programming.

The market is still continuing to expand, both in terms of increased household penetration of existing channels and the arrival of new players. 1995 saw the launch of two new channels: EBW (European Business Week), owned by Dow Jones, and BBC World, the BBC's own pan-European commercial news and current affairs channel. Both these launches came from large, multinational media companies, indicating that the medium is set to become more high profile in the future. Two years ago, Super Channel was bought by the US broadcaster NBC. The common theme here is that all the owners have built strong reputations as either domestic broadcasters or publishers. The other point in common is that, along with CNNI and Euronews, they are all competing for market share among an exclusive group of European business men and women.

The experience of the last eight years shows that a thematic programming strategy rather than a more general formula is the most successful. In 1987 Sky and Super Channel launched into Europe with a general entertainment format. They were in competition for viewers, and in many cases, for advertising, not just with the other pan-European satellite channels, but also with the national terrestrial channels. When NBC bought Super Channel in 1993, they were buying a network of homes rather than a channel which had strong programming schedules. Sky television, the other general entertainment pioneer of the late 1980s, has now retrenched into the UK.

As a result of the proliferation of the news/business/current affairs format channels, there is likely to be a battle in which high-quality programming will become the key to success as it attracts not only viewers, but also cable operators.

Expansion of the market by those who do survive will come from two areas: the expanding networks of the cable operators and the exploitation of re-broadcast opportunities. It is the latter which offers the greatest potential in terms of adding numbers of homes, although the risk is that programming will be seen as an off-peak filler, rather than as prime-time material.

Table 4.7. Pan-European television stations

Station	Language	Homes (000)	Cost for 30 minutes in US\$
CNNI	English	52,451	750 – 4,000
Discovery	English	9,594	577
Euronews	English, French, German, Italian, Spanish	59,200	966 – 1,930
Eurosport	English, German, French, Dutch, Swedish, Finnish, Spanish	61,769	411 – 7,800
MTV	English	60,654	509 – 5,888
NBC Super Channel	English, German, Dutch	66,029	707 – 2,826
TNT/Cartoon Network	English, French, Spanish, Swedish, Norwegian	26,003	500 – 2,150
BBC World	English	7,884	471 – 1,570

Source: Carat, European Campaign Planner, 1994.

In terms of advertising, the development of cable and satellite channels has expanded the overall pan-European market. The number of households in which pan-European cable and satellite channels are available is huge in comparison with the number of people reading international publications; the fifth pan-European survey estimates that a mere 1.9 million residents of western Europe read an international title.

Pan-European newspapers

Pan-European newspapers (Table 4.8) have historically targeted financial executives, US expatriates and sports enthusiasts, but they are now attempting to broaden their appeal and their advertising base. As Europe's economies emerge from recession, the sector is 're-vamping', offering a wide variety of advertising opportunities, from an expanded choice of space sizes to added-value packages and sponsored supplements. Distribution is also being improved, and investment in editorial matters increased.

Table 4.8. Pan-European newspapers

Title	Frequency	Circulation (world-wide)	Readership (000s) (Europe)	Cost per page (b/w) in US\$
The Financial Times	Daily	249,419	259	52,321
International Herald Tribune	Daily	128,304	55	58,369
Wall Street Journal Europe	Daily	63,000	52	25,753
USA Today	Daily	n.a.	20	n.a.
The European	Weekly	134,544	106	18,686

Source: Pan European Survey, No 6-1995.

As shown in the table, there are five principal pan-European newspapers, three of which originate from US publishing houses (*USA Today*, *Wall Street Journal Europe* and *International Herald Tribune*), and two of which have European roots (*The Financial Times* and *The European*).

The Financial Times, primarily a UK financial and business title, is printed at several sites around the world, including Frankfurt and Paris in Europe, and New York and Tokyo elsewhere. The *International Herald Tribune*, based in Paris, but printed at sites all over the world, is a general interest and business title read by English-speaking members of the international community, less than half of whom are from the US.

USA Today is a far more populist title, particularly successful amongst US forces in Germany, and is focused on US news and events. The *Wall Street Journal* is similar to *The Financial Times* in scope, but more continental in its distribution. Finally, *The European* is still heavily biased towards the UK, but is editorially focused on pan-European issues.

With the exception of *The European*, the titles are all dailies, and therefore prompt and reliable delivery to subscribers and the newsstand is central to their success and growth. Technological developments in printing, such as satellite transmission of both editorial and advertising, mean that transportation problems are greatly reduced and that printed news is up to the minute.

Although the pan-European newspapers are written in English, all, with the exception of *The Financial Times*, draw the majority of their readers from Continental Europe. Equally, although three out of the five titles are from US publishing houses, their appeal is primarily to European nationals rather than to expatriate Americans. The dominance of US publishers in the market has led to the mistaken belief that readers of the three titles in question are largely US expatriates. This is only true of *USA Today*, which does cater specifically to the American reader, but even so, expatriates tend to be on long-term secondment in Europe with large multinational companies. Both the *International Herald Tribune* and the *Wall Street Journal* have a sound base of European readers, the former being particularly strong in France, and the latter in Germany.

Mindful of increasing competition not only from other publications but also from the new media, several publishers have made improvements to their products.

The pan-European newspaper market is experiencing threats to its advertising revenue from the growth of pan-European business television. Although in the long term the increasing success of the latter should help to attract new sources of advertising revenue and expand the market, in the short term international advertising budgets are being divided between a large number of players. Both *The Financial Times*, through Pearson, and the *Wall Street Journal* publishers Dow Jones, have responded by becoming involved in pan-European television. FTTV programming already runs on NBC Super Channel, and 1995 saw the launches of BBC World (joint Pearson/BBC initiative) and The European Business Channel. Both publishing groups see themselves as providers of information and business news products through the most appropriate medium, an approach which is likely to become more prevalent in the interactive and multimedia era.

Pan-European magazines

Pan-European magazines (Table 4.9) are aimed primarily at the senior international businessman, so although their circulations are relatively small, the quality of their readership is high. They offer an independent, objective editorial environment, complementing the more national approach of indigenous titles. International advertisers benefit from this elevated status, and feel that the high quality of the magazines helps to protect their position as major players in Europe.

Editorially, the titles fall into three main groups: business and financial titles, lifestyle fashion/women's magazines and news magazines. The latter, such as *Time* and *Newsweek*, have the greatest overall penetration of the European market, while business titles such as *The Economist* offer a more select, concentrated business readership. In addition to the three areas mentioned above, there are also general interest titles of which the *National Geographic* is the most notable for its extensive penetration across Europe, and consistent performance on the international surveys, reaching high numbers of the business élite.

As far as women's magazines are concerned, some of these, particularly those addressed to a high target, while not being in the strict sense pan-European (because they do not use the same language), do, however, have very similar content. The result is that the advertising content is uniform in different magazines in so far as publishers sell their advertising in these different titles *en bloc* to advertisers and offer a genuine cross-border targeted medium for niche advertisers (*Vogue*, for example). This fact is naturally facilitated because such a niche target in different countries shares similar values and behaviours of purchase and consumption.

Table 4.9. Pan-European magazines

Title	Frequency	Circulation (world-wide)	Readership (000s) (Europe)	Cost per page (b/w) in US \$
Business Week	Weekly	68,000	109	9,300
The Economist	Weekly	236,825	295	14,092
Fortune	Fortnightly	55,000	125	6,000
L'Express/Le Point	Weekly	n.a.	333	n.a.
Harvard Business Review	6 x p.a.	57,134	228	10,000
Newsweek	Weekly	295,000	189	18,580
Scientific American	Monthly	n.a.	203	n.a.
Time	Weekly	534,000	311	36,863
Eurobusiness	10 x p.a.	n.a.	n.a.	n.a.
Euromoney	Monthly	n.a.	106	n.a.
Institutional Investor	Monthly	42,217	65	18,675
Paris Match	Weekly	n.a.	205	n.a.
National Geographic	Monthly	780,000	573	33,955
Media International	Monthly	11,843	n.a.	5,209

Source: Pan-European Survey, No 6-1995.

In-flights

This category of magazines represents the largest group of titles within the international sector (Table 4.10). All the major airline carriers publish a magazine, most of which are monthly in frequency. The publications appeal both to pan-European advertisers, due to their international circulation, and to domestic advertisers from the airline's home market. This means that in order to get a geographically balanced coverage of Europe, advertisers need to buy several in-flights. A large proportion of their advertising revenue comes from duty free goods.

The quality of the titles varies, but those produced by the leading airlines tend to reflect the quality of the carriers. Editorially they are lifestyle in content, with the exception of titles like *Business Life*, which are aimed specifically at the frequent business traveller.

A factor working in in-flight magazines' favour is the quality of editorial. It used to be described as wallpaper, mere wrapping for the ads, in publications which would founder if they ever had to compete directly with international rivals on the newsstands. But quality has had to improve to compete with other media on board aircraft. The general view is that advertisers are increasing their expenditure on in-flight ads, although not at the expense of existing media.

Table 4.10. Pan European in-flight

Title	Country of origin	Total Europe readership	Readership in country of origin (000s)	
			000s	%
Atlas	France	265	208	78.5
Business Life	UK	206	130	63.1
High Life	UK	248	168	67.7
Holland Herald	Netherlands	108	54	50
Parcours	France	297	283	95.3
Ronda	Spain	97	59	60.8
Scanorama	Scandinavia	247	103	41.7
Ulisse 2000	Italy	145	120	82.8
Lufthansa Bordbuch	Germany	406	261	64.3

Source: Pan European Survey, No 6-1995.

Pan-European outdoor

Outdoor advertising as a European option is becoming ever more attractive. The reasons for this trend are:

- (a) in the most developed outdoor markets, saturation of space within legal constraints has now drawn the emphasis of contractors towards offering more effective sites rather than greater quantity;
- (b) package buying is increasing;
- (c) contractors are expanding abroad, exporting similar sized panels across countries;
- (d) other contractors have started establishing European networks, forming alliances with leading national large-size poster contractors, and this allows media buyers to make a 'one-stop buy' across Europe.

New media

(A) The market

'New media' is the name for those new digital communication media which have emerged as a result of technological convergence in the sector of traditional communications and telecommunications. These include off-line media such as CD-ROM, and on-line media like the Internet and the systems of interactive television which are undergoing a phase of progressive integration to facilitate the offer of off- and on-line interactive multimedia services.

The spread of these new media has, and will have in the near future, a great impact on advertising communications, and therefore on the providers of advertising services (Morgan

Stanley Internet report, Commerce-Net/Nielsen, Jupiter Communications). The operators we interviewed also agree about the importance of this phenomenon for the advertising services sector. For this reason, it is important to take their effects into account, even if the analysis focuses more closely on the present and future, rather than on the past ten years.

The digitalization of all communication forms (data, texts, images and videos) is removing the boundaries between telephony, computer science, publishing and broadcasting. At the end of the transformation process whose first developments we are now witnessing, the following will be available: new services of interpersonal communication, media and business-to-business communication based on digital multimediality, hypertextuality and network interactivity – the so-called Hypermedia Computer-Mediated Environment.

In these new communication channel/environments, it is possible even now to exchange both written and spoken messages, to start conversations or to take part in group games, to navigate through the multimedia contents of the World Wide Web with hypertextual techniques, to visit representations of virtual reality, to receive audio files, to directly assist in video, to access financial services and tourist bookings, to shop, and subscribe to educational programs on-line. This is possible on the Internet and on the other networks which have accepted the communication and software standards of the Internet, as for example America On-Line. This communication occurs without any national boundaries and at very low broadcasting costs compared to traditional media. Further, these costs are, at least for now, independent of the distance between source and audience.

The Internet and on-line services form merely the first phase of the new media development, and they have only recently demonstrated the potentiality of their applications for mass public and commercial communications, even though they are based on relatively old technology. One of the results confirming the progressive importance of these new communication forms in the field of international communications is that in 1996 America On-Line became the fourth largest network in terms of prime time audience size in the US after ABC, CBS and NBC (source: AOL).

Although the Internet has been remarkably successful both in terms of the spread of infrastructure and in terms of market diffusion (see the data in Figure 4.9), it still suffers from significant problems which limit the actual potentialities of use. The most significant among these are the following: band scarcity, which limits multimedia applications; the difficulty of guaranteeing adequate security levels, which has negative effects on electronic commerce; the difficulty of protecting privacy and copyright, which has negative effects on the development of on-line publishing activities; the scarcity of receiving technology (computers) and the level of computer literacy required by users.

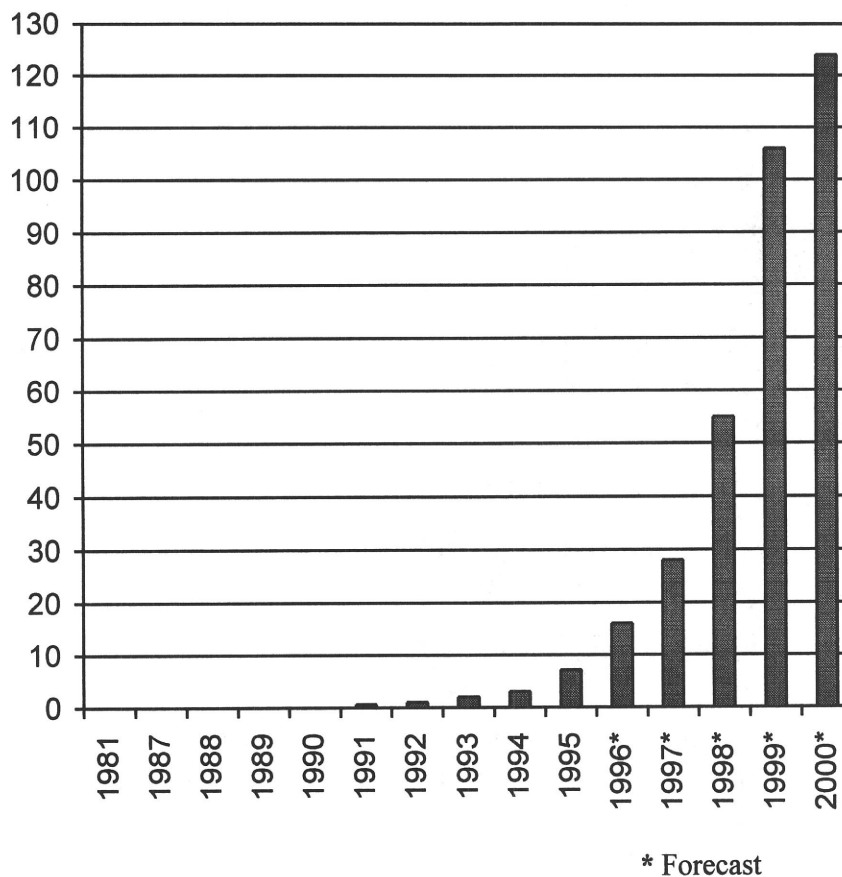
A completely new phase in communication history will occur when the progressive widening of the communication band is obtained through the development of optical fibre networks, the integration of the cable TV transmission network with the Internet, and the integration of satellite TV with the Internet. A critical mass in the demand for these new services will be reached. This new phase will be due to the generalization, at maximum levels of sophistication, of the applications that are now still rudimentary, often experimental and limited to market niches.

The major players in the sector have indicated that this future for the new media is approaching rapidly. The largest telecommunication companies are carrying out a project for video-on-demand services and interactive television on networks with optical fibres or cable TVs. The Murdoch Group and Bertelsmann Publishing have already announced the offer of Internet services through satellite from 1997. Hughes and Olivetti Telecom is planning to offer the Turbo-Internet service Internet via satellite for Europe. Hughes is selling such services on the US market. This integration between TV and the Internet should resolve some of the most troublesome questions, such as band scarcity, the scarcity of the hardware necessary to use the new services (the use of the TV set would be possible, instead) and the difficulty of using the medium.

Financial operators (Visa and Mastercard were the first) have announced the definition of the standard to solve security problems for on-line transactions, in collaboration with technology providers (including Netscape, IBM and Microsoft). In Europe there are electronic money trials, particularly the electronic wallet and smart card, for off- and on-line commercial operations. We refer in particular to Barclays Bank's project in the UK and the Olivetti Telemedia project in Italy. Important operators, such as IBM, are delivering software for copyright protection in electronic publishing (see the Cryptolope project).

The history of the spread of communication technology, from the telegraph to the home computer, demonstrates how easy it is to mistake the time and market acceptance rates of new media. The contradictory results of research confirm this difficulty – the business models in the Internet are still unknown, the new digital TV services of Kirch in Germany were not very welcome, and most of the Video-on-Demand projects find it difficult to explain their service advantages to customers. Despite this, we agree with the analysts who predict that the new multimedia and interactive services will be a significant reality by the beginning of the next century (see Morgan Stanley Internet report).

One of the most critical questions is the lack of a certain legislative structure within which the new communication and commercial activities on the network should be placed. There is still confusion about the responsibilities of broadcast communication (does it belong to the source or to the provider?), about tax management of on-line commercial activities and copyright questions, privacy protection, and about the censorship of contents on the network. Since this normative structure can greatly influence the market success of the new media, it is obvious that any Community measure for the modification of these norms will have a profound effect on the new communication models in Europe.

Figure 4.9. Number of Internet hosts in the world (in million)

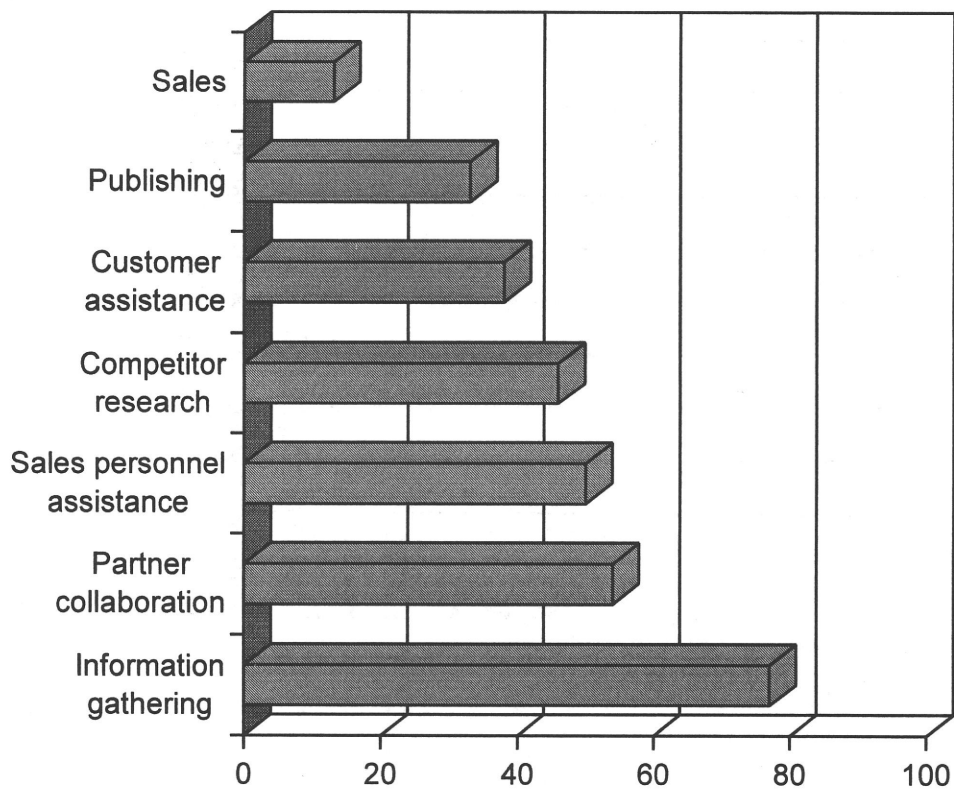
Source: Network Wizard, 1996.

(B) The audience for Internet services

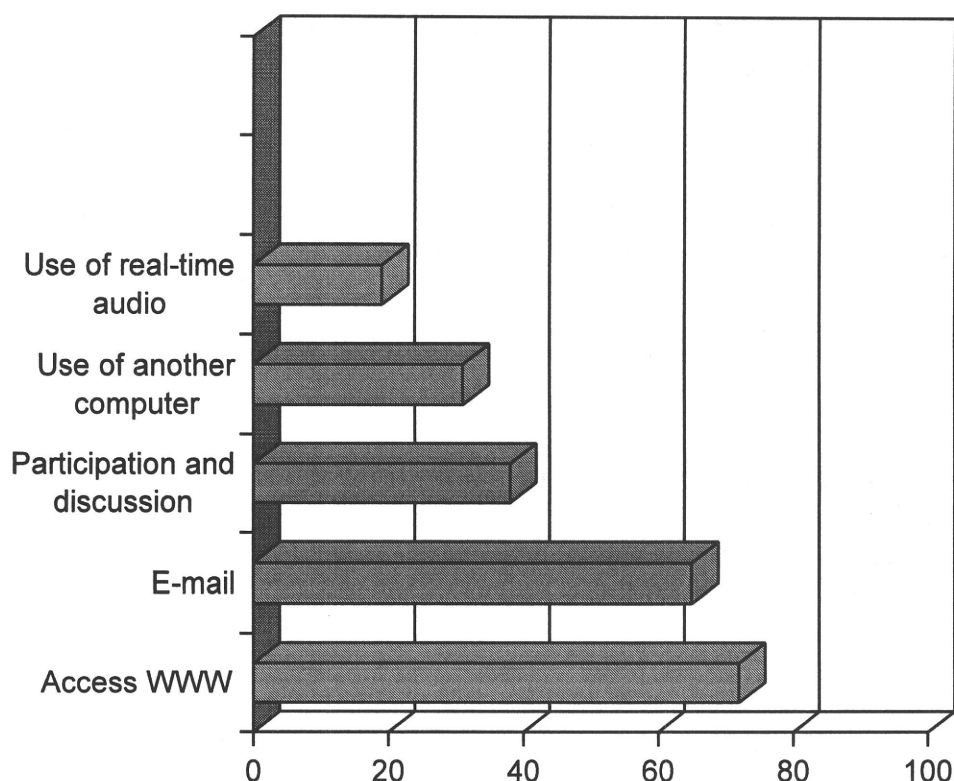
While market research on the Internet in the US and Canada is beginning to provide a great deal of data about the dimensions and characteristics of Internet demand in those countries (Commerce-Net, SVP, O'Reilly, etc.), there are few surveys on the users and the potential demand of Internet services in Europe. The results of research on a random sample of the adult British population (see the contribution of Prof. Holly Semetko at the conference on Internet Marketing, Bocconi University, 1996) show that 6% have used the Internet, and a further 6% have the intention of using its services. The results of research by the Osservatorio di Marketing of Bocconi University show that in the same period 4% of the adult Italian population have used the Internet at least once, and 29% of the same sample expressed a general interest in its services.

The predominant activities of the Internet audience (both business and consumer, see Figures 4.10 and 4.11) are information collection and consumption of the contents of communication published on the World Wide Web.

Figure 4.10. Business use of Internet over a typical 24-hour period



Source: Nielsen/Commerce-Net, 1995.

Figure 4.11. Consumer use of Internet over a typical 24-hour period

Source: Nielsen/Commerce-Net, 1995.

An updating of the Commerce-Net/Nielsen research carried out in April 1996 on the US audience shows that the transformation trends of this audience composition are significant. 'The Internet is becoming a mainstream phenomenon', says Nielsen Media Vice-President David Harkness.

The previous research was carried out in August/September 1995, so in seven months the number of US Internet users has increased by 50%. (They now make up 22–24% of the adult population.)

Nearly half of these users are new and are different from the previous 'early adopters' who had a greater than 50% probability of being computer technicians. Internet pioneers tended to be male, well-off and highly computer literate. The new arrivals have demographic characteristics similar to that of the average population. One of the largest studies of Internet user profiles, which also included data about Europe, was carried out by the Georgia Institute of Technology of Atlanta on a self-selective sample of more than 11,000 Internet users.

This research, carried out in the spring of 1996, shows that the Internet audience is, on average, 33 years old, predominantly male (nearly 65%) and has an average income of US\$ 60,000. Trends indicate that this audience is becoming more and more mainstream, which means: older users, more females, and more users with lower incomes. These trends are confirmed in Europe, but the starting points are different. The audience is younger (average age less than 30), there are fewer women (only 15%) and the income is lower (23% have an income less than US\$ 20,000 and only 31% have an income greater than US\$ 50,000).

(C) Models of Internet marketing and publishing

The activities carried out in the network refer to all market segments. There are communication and publishing activities, and the sale of goods and services. It is possible to divide the activities on the World Wide Web into the following categories:

- (a) on-line presence (only direct communication of the company and/or institution);
- (b) on-line shop;
- (c) electronic malls;
- (d) centre of services on specific themes (often non-profit);
- (e) electronic publishing for sale;
- (f) electronic publishing with contents supported by advertisement;
- (g) on-line entertainment;
- (h) directories and yellow pages;
- (I) search engines.

Commercial communication can be hosted both on web sites managed by companies and on high traffic sites which are interested in selling space (Internet banners) to other operators. This activity is particularly significant for the sites of directories, search engines and publishing.

There are now thousands of on-line newspapers and magazines, and these have audiences of similar dimensions to those of the traditional media. The Hearst case in the US is considered one of the major examples of Internet publishing success. The site (Homearts.com) was created in 1995 and has developed new leadership and advertising profits for traditional papers like *Redbook*, *Good Housekeeping*, *Popular Mechanics*. It has achieved remarkable results with 3.5 million hits and 500,000 visitors per month. It has also increased its audience, opening to segments interested from an advertising point of view (male youngsters) that it could not reach with traditional papers. Now investors like Microsoft, MCI and Columbia House buy space.

Internet publishing also means personal papers, i.e. news services and comments which are enclosed in a personal way according to specific needs of the users. CondéNet decided to offer personalized services on its Epicurious (www.epicurious.com) and Swoon (www.swon.com) sites. The publisher hopes to be able to charge for a subscription to an 'on-line club'. The tendency to provide personalized services is even more evident in initiatives like Time Warner's Pathfinder's (Pathfinder.com); Time Warner has planned to launch its Pathfinder personal edition in autumn 1996. This service will cost US\$ 5 per month and will be part of a package that the publisher will offer as a supplement to its rich content which is free of charge (*Advertising Age*, 26.8.1996).

Not every researcher agrees about the possibility of success for operations of this kind. Even if US\$ 5 a month is a small sum, it is not certain that the user will perceive the value of the service. Another interesting source of profit can be the sale of advertising space on these services at higher costs. Katy Sharpe, director of the Interactive Communication division at DDB Needham in New York, says: 'I want to know whether the site will give me more and verifiable data for these users. If the site can do this, then it is worthwhile paying a higher price.' (*Advertising Age*, 26.8.1996).

(D) Advertisement on the Internet

Advertisement on the Internet includes two kinds of activities:

- (a) communication relative to commercial activities carried on outside the Internet;
- (b) communication relative to commercial activities carried on within the Internet.

The first kind of advertisement includes communication activities carried on mainly through web sites by companies and institutions. The providers of services relative to this kind of commercial communication have not so far been agencies, but providers of Internet access and interactive marketing consultants.

It is possible to develop institutional, company, product and internal communication through web sites. The technology on which this communication is based (hypertext) and the open model of Internet communication stimulates the integration of different communication and public target functions, both as socio-demographic segments and geographical markets. Everybody sees everything. This phenomenon goes in the direction of the standardization of cross-border communication.

One-to-one communication activities can be developed on these sites. This means that every customer is given a personalized communication interface and promotion, if his/her profile is known because there is a record of his/her behaviour or because he/she was asked to record data on his/her expectations. This *ad hoc* communication can be used both when the potential customer visits the web site, and in e-mailing campaigns carried out on the basis of lists of Internet users who have subscribed to product up-dating services. It is also possible to develop interpersonal communication between customer and seller (through e-mail or chat), thus giving the customer the opportunity to obtain commercial information on products and services offered, starting from the customer's needs.

Since the communication model of the World Wide Web is based on customer access to the address of the site he/she intends to visit, it is also necessary for the user to know that a site exists and to be stimulated to visit it so that the communication in question achieves its aim. The way to achieve such a result is through the development of on-line advertising to make the web site known, exactly as happens when the web site in question is the place of the activity (of sale or service) which it is intended to promote (advertisement on World Wide Web, in other words).

The advertising techniques which make activities on web sites known, or build brand fame, are as follows:

- (a) banner, launching a message to the audience of high traffic sites so that targeted individuals decide to visit, by means of a click on a hypertext link, a web site where there are communication, commercial or service activities;
- (b) record on search engines, i.e. appearing as the result of a search on the key-word carried out by the user;
- (c) presence in directories, being found in a search activity per kind of merchandise;
- (d) sponsorship of events on the Web.

Advertisement on the World Wide Web and through on-line services was a little more than US\$ 50 million in 1995, according to research data by Jupiter Communications. Although it is expected that this amount will be US\$ 342 million in 1996, these figures do not show that the Internet is a medium in which advertisement plays a great role, nor that it is able to compete against traditional media. If we consider that this turnover is concentrated in little more than a dozen web sites (mainly directories and sites publishing important papers), the result appears even less encouraging. Nevertheless, the same research predicts that advertising expenditure on the World Wide Web will be US\$ 5 billion in 2000, overtaking advertising expenditure on radio.

Internet success as a medium of advertising communication is correlated to the following factors:

- (a) the development of the Internet as a sales channel for information, goods and distance services;
- (b) the possibility to define an advertisement form on Internet that would be consistent both with its technological (especially interactive) and cultural characteristics;
- (c) availability of communication channels in the network which are adequate to host the advertisement;
- (d) the possibility to define reliable and independent measurement standards of the dimensions and characteristics of the audience of the various papers and sites, and of the effectiveness of the campaigns.

Jupiter's research also holds that Internet commerce is now less than US\$ 600 million, but predicts that by 2000 this figure will be US\$ 7.3 billion, considering that most problems limiting these activities (especially the worries about security) will have been resolved.

With regard to Internet advertisement models, it is important to clarify a 'myth' that could have a negative effect on the development possibilities of on-line advertising and commercial activities. Since the first attempts to define the principles of Internet marketing, the pundits of the sector (who were usually technology experts rather than marketing experts) maintained that 'there is no need to advertise' to make commercial communications on the net. The 'one-to-many' communication model on which the advertisement of traditional media is based was, according to this interpretation, an old-fashioned model, which had been overtaken by the interactive possibilities (one-to-one and one-to-many) of the Internet. Further, the active role of the audience in the choice of the content on the Internet required communication of a functional type, different from the frequently emotional communication of advertisements.

The consequence of this approach and the delay of advertising agencies to understand the Internet phenomenon (see the intervention of the President of the Associazione Italiana Agenzie Pubblicità (ASSAP) at a recent conference about Internet marketing in Milan) meant

that other agents, especially Internet providers, covered this need of services for new advertisement. They often obtained very poor results because they focused either on the technological aspects of communication or on the will to develop 'interactivity at any cost'. The playful, passive and emotional aspect of the consumption of mass communication should not be underestimated, because it is a factor in the satisfaction of the need underlying this consumption (relaxation).

With regard to this, it is useful to mention the success of Internet advertisement formulas based on e-mail, which require a passive use of communication on the user's side, and the introduction of advertising forms on the animated web, such as Java, and the interface of Internet publishing which integrates off-line and on-line communications (such as in the Pointcast service).

Web technology is not, therefore, necessarily inconsistent with the need for advertisement communication. Static web sites and e-mail already have a use of this kind, the one that will be available in the near future or will be increased. Applications based on Java, off-line interfaces and the development of applications with the intensive use of video (three dimensions) are moving in that direction. Naturally, these web applications will increase once the scarcity of bands no longer creates a bottle-neck for the transmission of digital information.

Another obstacle to the spread of advertising on the Internet was the difficulty of arranging effective and independent survey methods, and data and results on the impact of advertising on the audience. Recently, however, exposure and 'click through' survey methods have been developed on the World Wide Web, and these have improved the situation considerably. There are measuring companies such as Double Click which promise to give the effectiveness results of a campaign within 24 hours of the transmission of the campaign itself (hits, impressions, click through). There are further efforts to provide measurements of audience profile and dimension on web sites selling advertising space, so as to allow the construction of models of pricing of the space sold that are consistent with the size of the public.

(E) The impact of the Internet on agencies' work

Some agencies, such as Bates Interactive, the Cyberio Division of ATA Tonic, BBDO, BM Needham, and some centres such as MediaNetwork, Initiative Media, Zenith Media, have become active in the areas of Interactive communications. They are still in the pioneering phase.

One of the most important problems which advertising agencies have to resolve in order to be able to confront the challenge of new media is understanding the new form of advertising which can be transmitted through the new media. It is necessary to develop new communication models which allow the interactive potential of the new technological media to be integrated with the impact potential of campaigns which call for a more passive role on the part of the audience. It is also necessary to integrate the delivery of information of a more functional kind with entertainment, and to convince the public to visit advertised sites.

Research into computer-mediated communication processes via the Internet is gathering a great deal of data about changes in the methods of use and the impact of network communication. What is expected from operators in the sector is creativity in the offer of services that fully exploit the potential created by these models of net navigation.

At the level of communication development it is necessary for the agencies to acquire the skills to allow them to use web authoring and animation technologies (now mainly used by specialists). In this way they could take direct or indirect control of the whole cycle of on-line advertising production.

Advertising agencies are, at the moment, playing a stimulus role with regard to Internet publishers and service providers, because they are developing standards and institutions that are independent of audience and communication effectiveness measurement and analysis. This role will become more important still, once the Internet (and the new media which will be integrated with the net) has grown significantly larger.

The competitive turbulence will, however, continue to be strong, as the effects of convergence continue to be felt by the agencies. Those who are now occupied with media content production and offer net connections have the expertise and opportunity to develop the services which were traditionally offered by advertising service suppliers – the planning and production of commercial communications and the purchase of net space. The development of outstanding competence in this new activity, together with the capacity to stimulate a homogeneous legislative structure on on-line advertising activities, will be the pre-conditions for assuming an operator role in the new media market sector.

(F) The Internet and the single market

The Internet is a global (and therefore also pan-European) medium. It goes some way towards knocking down one of the most important barriers to the development of cross-border advertising in Europe. It may therefore have a great impact on the advertising services sector, because it can assume a significant motivating role in the spread of multi-country campaigns.

The direct intervention of the European Union could be addressed to construct a homogeneous, legislative framework so that Member States apply Article 59 of the Treaty when they pass legislation related to Internet commercial communication services.

It is possible that the normative frame of the single market may, in the future, have a greater impact on the role of suppliers of advertising services. If common legislation can be used as a homogeneous rule for the establishment of behaviour criteria similar to those used in the traditional media, the role of operators in the sector will be central for the new media as well (in spite of competition between Internet service providers, publishers, and direct communications from advertisers). The most problematic areas involved in this study are:

- (a) the need to clarify communication roles and responsibilities, after the confusion of the above-mentioned 'blurring of distinctions' between published content and advertising, and therefore to separate the roles of content producer and advertisement producer;
- (b) the need to guarantee commercial communication quality levels to protect the consumer from misleading messages;
- (c) the need to establish homogeneous criteria for surveys of communication consumption and the effects of advertising.

In conclusion, the Internet (and its development in second-generation new media) may be the homogeneous and cross-border medium whose absence was felt by operators in the sector to be one of the most important barriers to pan-European advertising. If this potential is to be realized, it is necessary that the infrastructure development is supported, and that a

homogeneous, normative frame is developed through which the new activities of communication are addressed.

4.3.2. Differences in media supply in different Member States

A company that plans to use a pan-European approach in its advertising campaign, always encounters difficulties in media strategy, planning and buying in the strict sense. Such difficulties are due to the considerable differences in the national media providers' sectors which reduce the cost-effectiveness of transnational campaigns by preventing the centralization of media buying at a European level.

A clear confirmation of the fact that this situation limits the opportunity to run pan-European campaigns comes from the judgement expressed by the interviewees.

The results of the field research clearly testify that the persisting fragmentation and lack of homogeneity of the media represent one of the major obstacles to a pan-European approach in marketing and communication policies. The companies judge it very difficult to run media planning and media buying activities on a pan-European level.

In fact, as seen in Table 4.5, different media systems are, along with different languages and different cultures, one of the most important obstacles to the adoption of a European prospective.

The companies operating in both the youth and luxury segments express a greater concern over this obstacle, because these sectors have adopted a more standardized approach in different countries.

To understand some of the differences in the use of the various media, one can analyse investments at a national level.

The major issue of differentiation in national media systems is the heterogeneous media availability in various countries, which has three main effects:

- (a) different costs for the same media in various countries (different media efficiency);
- (b) different degrees of advertising 'crowding' for the same media in various countries (different media effectiveness);
- (c) different supply of vehicles in different countries.¹⁷

As for the first issue, the most significant differences can be observed with regard to television. The cost of 1,000 contacts (people reached by message) obtained through this medium varies from less than US\$ 9 in Italy, France, Ireland and the United Kingdom, to more than US\$ 15 in Belgium, Austria, Sweden and Spain. Table 4.11 shows the differences in prime-time costs in the various countries.

¹⁷ By 'media' we mean the group of general advertising media, such as TV, press, outdoor, etc.; by 'vehicles' we mean the specific advertising media (e.g. BBC for TV, Financial Times for Press, etc.).

Table 4.11. Cost per thousand, prime time, October 1992

	TV H/H ('000s)	Prime time definition	Adults US\$	Men US\$	Women US\$
Austria	2,872	19.25-20:15	17.4	36.2	30.4
Belgium	3,731	19:00-22:00	16.7	39.5	29.0
Denmark	2,196	19:00-21:00	15.0	30.1	30.1
Finland	1,768	19:00-22:00	10.5	21.0	21.0
France	20,394	19:00-22:00	9.0	20.2	16.2
Germany	31,780	20:00-23:00	10.4	19.5	22.2
Greece	3,133	21:30-23:30	11.8	27.2	21.3
Ireland	1,024	18:00-24:00	7.7	18.0	13.5
Italy	19,714	20:30-22:30	13.8	32.7	23.9
Netherlands	5,880	20:00-22:30	10.9	24.9	19.4
Portugal	3,070	20:30-23:45	7.2	15.1	10.8
Spain	11,255	20:30-23:45	12.8	27.7	23.7
Sweden	3,804	18:00-22:30	22.6	45.2	45.2
UK	22,029	17:30-23:00	13.2	32.0	22.6
EUR-14	134,310	n.a.	12.2	26.7	22.6

Source: Carat European Television Minibook, 1992.

Although these values give a rough approximation of differences in TV advertising efficiency in Member States, they do not account for the effectiveness of this medium, which has to be evaluated by analysing the time dedicated to advertising by channels and the number of commercials broadcast in different countries. It has been demonstrated that an excessive number of commercials – advertising ‘crowding’ – reduces the impact of advertising on target consumers. Even with reference to ‘crowding’, there are enormous differences between the national media systems. In 1990, for example, there were 1,000,000 commercials broadcast in Italy, while in France and Germany there were 200,000 and 300,000 respectively (Carat [1992]).

Another obstacle to pan-European media buying practices is the different degree of media development in various Member States, which determines the number of possibilities of vehicle choice for the investors. These differences can be evaluated either in terms of the absolute number or the degree of specialization of vehicles in each country. With regard to these aspects, many differences still exist between Member States. For example, in 1991 there were 649 national and local channels in Italy, 26 in Germany, 17 in the United Kingdom and only 2 in Portugal. The differences in national media systems are greater if newspapers are considered, where in 1991 the total number varied from 430 in Germany to 5 in Ireland, and some countries which did not have certain specialized vehicles (e.g. Ireland for ‘Business’ and numerous countries for ‘Sport’).

An example of this varied situation is shown in Table 4.12, compares TV and press expenditure in the different countries, and in Figure 4.12, which concerns the net daily reach of newspapers.

Table 4.12. Advertising investments by companies, 1994

	Lower TV share of expenditure	Higher TV share of expenditure
Lower press share of expenditure		Belgium France Italy Greece Portugal Spain
	Austria	UK
Higher press share of expenditure	Germany Netherlands Denmark Finland Sweden	

Source: Initiative Media, 1994–95.

All these differences are the result of numerous factors such as the degree of competition in national media providers' sectors, the level of development of commercial TV, countries' dimensions,¹⁸ cultural differences and national regulations concerning time dedicated to advertising, advertising interruptions of TV programmes, etc.

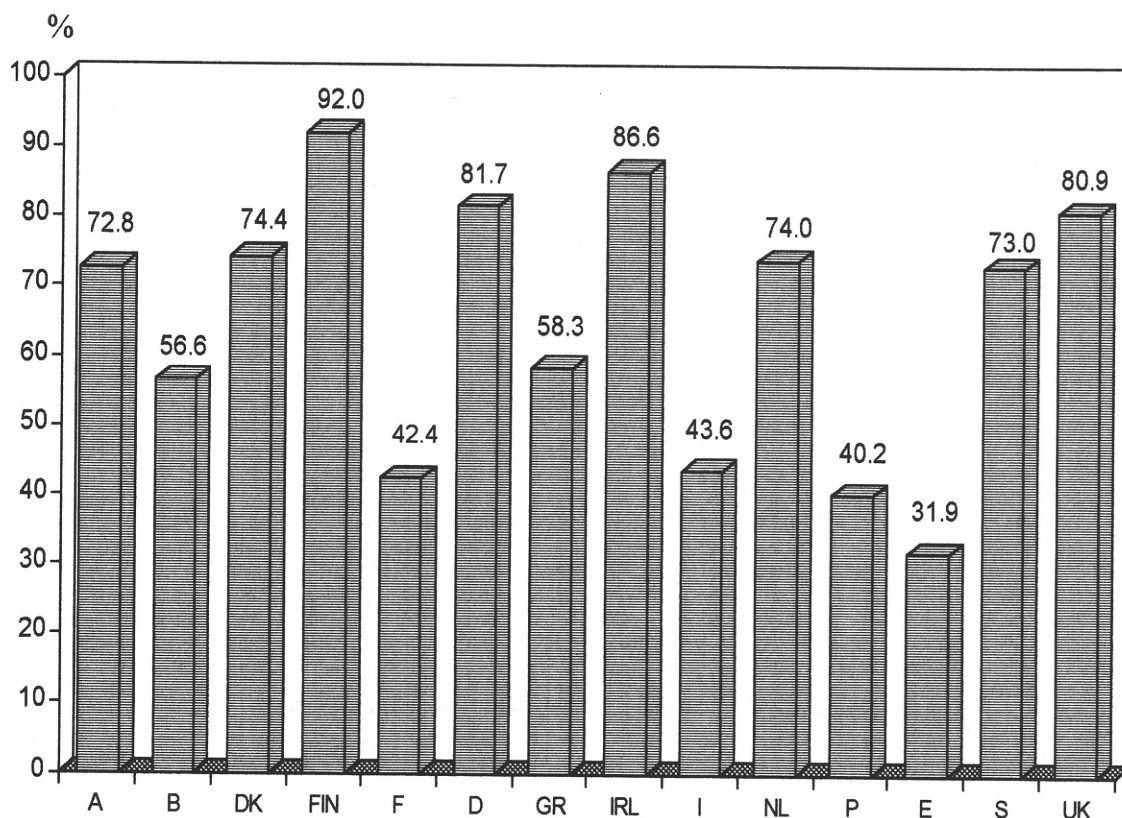
The great majority of interviewees indicated that differences in media supply in different Member States play a fundamental role in preventing the centralization of media buying at a European level. Examination of the literature made it evident that for this reason even MNEs familiar with transnational campaigns tend to decentralize their media strategy, planning and buying functions at a national level (e.g. Apple, Colgate-Palmolive, etc.). An effective example of local buying is the case of Nike which, though it is a heavy client of CLT – a multinational broadcaster – in different countries (Germany, France, Belgium and the Netherlands), continues to manage its buying functions at a local level.

The field research also identified another point of difference that constitutes a major obstacle to pan-European media buying: the different penetration of pan-European media such as MTV and Eurosport in the Member States. These kinds of media – pan-European and mono-thematic – are looked at with great interest, especially by companies operating in the youth segment (and to some extent the luxury segment as well). At present, they see them as

¹⁸ As an example, the small north European countries such as Belgium, the Netherlands and Finland have higher cost per contact ratios, since their TV channels need to spread their fixed costs over a limited audience.

complementary media, since their capacity to reach a specific target varies widely from country to country.

Figure 4.12. Net daily reach of newspapers (adults)



Source: Carat, 1994.

The above factors can be considered the major obstacles to the emergence of a pan-European advertising business. Besides them, the research focused, between the many other significant barriers, on obstacles which respondents indicated in the field research.

Different media research methodologies

Top line audience and readership data are comparable across the Community, but at a more disaggregated level, differences in media methodologies can pose problems for media planners.

Media research is a crucial function of the advertising business value-chain, since it is the basic tool through which 'media strategists' take decisions about company investments. In spite of its importance and the growing number of pan-European campaigns, only a little European media research has taken place until now (see Table 3.4 which shows the perceived impact of the absence of harmonization in media research methodologies on preventing advertising standardization). Two main factors explain such a shortage: the marked differences that still exist between national media systems, and the current differences in national media research methodologies.

The main areas of difference centre on dimensions, methodologies of data collection, methodologies of data elaboration and reference standards such as the target group, and classifications of media time that differ from country to country (e.g. the definition of teenagers is different in southern and northern Europe, prime time TV runs from 19.00 to 22.00 in France, while in Spain it runs from 20.30 to 23.45).

With regard to research on TV audiences, even though people-meter panels are now in place across all European markets which provide the 'head count', there are still basic differences in the methodologies and reporting conventions of commercial Gross Rating Points (GRPs).

Even if the superficial aspects of television research were harmonized, there are basic distinctions in the way that each European country watches television. At a very obvious level, prime-time definitions differ. Peak-time viewing in Spain, for example, starts at 20.30 in the evening, although by that time it is over in many countries.

Another key difference across Europe is cost. Although there are explicit dangers in comparing average cost per thousand, this is obviously of interest to the multinational advertiser who wants to compare one country with another. It must be stressed that its applicability is limited; research has highlighted how misleading simple cost per thousand comparisons can be between different European markets. Booking deadlines, discount availability, programming requirements, day-part structure, actual audience, negotiation ability, all influence the actual cost paid so that average cost per thousand becomes meaningless when a real target with specific requirements is taken into account. It should be pointed out that some markets do not deal in cost per thousand; both Belgium and France work with cost per GRP.

The main press research source available, i.e. the National Readership Survey across Europe, only covers the titles of primary importance to the advertiser, and so, at one level, provides an indication of the relative importance of the print medium in each country. Over the last decade, the number of titles covered has increased on average by 50%. However, the basic structure of the surveys differ, and no two countries across Europe use exactly the same measurement. For example, although the majority of countries use personal face-to-face interviews, telephone interviews are used in the Netherlands, Norway, Denmark and Switzerland, and a self-completion survey is used in Sweden. This impacts on the length of time the interview will take, and the number of questions that can be asked. For the media planner, the issues of buying patterns, readers per copy and quality of reading measures are important. For different reasons in different countries, readership surveys are limited in their usefulness.

Different media habits

The media buying habits, the role of advertising agencies in media buying, and the possibility of direct buying for the companies are different in different countries and in different client-agency, client-media, media-agency relationships and for the overall standardization of advertising (see Table 3.2).

In some countries (e.g. in Italy, partly in Spain and, until some years ago, in France), transactions related to media buying are not completely transparent. In particular, media providers (the companies which sell their space/time), faced by increasing competition, tend to inflate their price lists in order to be able to allow higher discounts later. This confuses the

process of media planning and the process of post-campaign evaluation. The confusion is particularly great when these processes are centralized at a European level, since local media competences are less developed.

Growing importance of other marketing communication tools

The steady development of other marketing communication tools, such as direct marketing, sponsorship etc., re-focus the efforts and the strategy of advertising agencies on the individual customer. Since the effectiveness and efficiency of the mix of promotional tools can be maximized only through a higher degree of integration between customers and marketing communication agencies (not necessarily advertising), this could reinforce the opportunity of having, in certain circumstances, a local advertising agency.

Further, it has to be considered that direct marketing, which is of increasing importance in European communication investments, is relatively new in some countries, although it has reached a mature stage in others. Moreover, current differences in national regulations on data protection and the legal protection of databases has up to now been a considerable barrier to the development of cross-border direct marketing campaigns. These factors must be taken into consideration, since according to industry sources, at the single market level, small and medium-sized companies, which cannot afford to set up infrastructures in new markets or advertise by way of press or broadcasting, will benefit particularly from this communication tool in their internationalization strategies.

5. The economic impact of the single market on the advertising services sector

5.1. The internationalization of advertising agencies throughout the EU

The European advertising industry has undoubtedly become more internationally oriented (i.e. having more international clients, learning from international competitors) and integrated (i.e. growth of international networks, agency expansion via mergers, etc.). More than 80% of interviewees working in advertising agencies believed that the sector has achieved a deeper international perspective in the last ten years (see Table 5.1).

The field research also confirmed the original hypothesis that the most important reasons for the advertising agencies' territorial expansion are attributable to a series of choices belonging to the 'client dimension' (Figure 5.1): the clients' demand for an international advertising structure in support of their international advertising campaigns and the clients' economies of scale when interacting with an international advertising structure. The former can be interpreted either as a current necessity (agencies already with clients that want to extend their activities in various countries, and need the support of an international advertising network), or as a way of attracting the interest of potential international clients (this is the situation of an increasing number of small and medium-sized agencies when they decide to take part in international clients' pitches).

Other fundamental motivations seem to be less important. These include EU legislative activity aimed at creating an integrated and harmonized transnational market (which is often seen as the creation of opportunities for effective and efficient internationalization, rather than as a force acting for international integration in the advertising sector). Also included are cost improvements for the advertising agencies.

When asked about cost savings related to the creation and handling of international advertising campaigns inside an international advertising network, the interviewees working at agencies often emphasized the fact that the main advantages accrue to the advertisers rather than to the agencies (see also Section 5.6.6: 'Remuneration in international client-agency relationships'). Furthermore, even when these campaigns are characterized by a high degree of standardization, the major advantages have to be considered in terms of economy of scope rather than of scale, both for the client and for the agency.

Besides the above-mentioned forces, two others seem to play a role because they were mentioned quite often. They were the defensive reaction to counter international expansion by competitors, and offensive strategies to exploit new markets. Both seem to have increased in importance in recent years, dating from the time that the largest advertising agencies began to adopt a less passive approach. The entry of international agencies into less developed European advertising markets can be looked at from this point of view. In countries such as Greece and Portugal, the entry of multinational agencies has often anticipated that of companies, and is changing the structure and development of national advertising to a significant extent. In these countries the use of agreements, joint ventures and mergers with advertising agencies from abroad, or between local agencies, is reshaping the sector by bringing about a rapid polarization (Stefanou [1992]).

When international companies decide to spread their activities throughout the European market, they ask their agencies to handle their advertising business abroad, and the agencies respect their clients' needs, even though they do not see any immediate return from their operations in certain regions of Europe.

The relationship between international advertising agencies and their clients is very close, and is sometimes based on the mutual loyalty which has developed through long-term relationships.

In fact, very often the process of internationalization of advertisement agencies derives from their customers' decisions to internationalize. The agencies can opt for various forms of internationalization (depending on investments and costs of structure), showing themselves willing to provide services abroad and to open new offices to follow their customers' strategies of internationalization.

This process of internationalization is completed through joint ventures and *ad hoc* operations that allow agencies to have many alternatives, which are easily adaptable to the conditions of the international markets where they intend to develop.

Although MNEs do not automatically assign their international accounts to the same agency (the degree of importance of the factors impacting on the decision concerning the use of one or more agencies is shown in Table 5.2, where the prevalence of the 'client dimension' is again confirmed), they tend to use a single global agency to handle their domestic and international business, in order to achieve consistency in their services and campaigns. If agencies do not have international networks, they also may lose their clients' domestic accounts.

Naturally, the fragmentary legislative framework in Europe provides a brake on the possibility of using centrally co-ordinated campaigns, obliging both agencies and companies to adapt themselves to the requirements of local laws. These tend to diminish the achievement of efficiency aimed at by means of a single European agency.

Table 5.1. Advertising agencies' opinions on the degree of international orientation and integration in the EU advertising sector

Item	Opinion	Percentage of respondents
International orientation	much less	0
	less	5
	same	10
	more	56
	much more	28
International integration	much less	0
	less	0
	same	18
	more	41
	much more	41

Source: Bocconi University.

No clear trend can be identified in relation to the centralization of advertising expenditures within a single advertising network. However, some recent cases seem to testify to an increasing interest in the advantages of this kind of choice. At the beginning of 1996 the multinational household product company Reckitt & Colman centralized UK£ 150 million of

its budget in McCann-Erickson world-wide, while at the end of 1995, the largest consolidation in history occurred when Colgate Palmolive shifted its UK£ 400 million world-wide advertising account into Young & Rubicam. Tim Pollack, who heads the Colgate Palmolive account at Y&R, explains the operation in these terms: 'A single agency partner can develop an expertise in a client's brands, then bring that learning to the various markets concerned ... obviously there are some economies involved, but the ability to build brand equity with a coherent global message is the most important factor.' He also emphasizes that consolidation may be prompted by increasingly sophisticated audience research methods: 'We can now identify with considerable accuracy the differences and similarities between global consumers, and tailor our message accordingly.' At the time of the Colgate Palmolive-Y&R 'marriage', the German-based pharmaceuticals company Bayer put its entire consumer care products account, worth about UK£ 170 million, into BBDO. Furthermore, IBM axed 80 agencies world-wide in 1994 to give Ogilvy and Mather its UK£ 318 million account. Finally, there is talk of Procter & Gamble's and Kraft's intentions to cut back on the number of agencies they use.

It is a common opinion that this is just the latest phase in a cycle which has been developing over the last 15 years, as multinational companies centralize and then decentralize their advertising. The mid-1990s appears to be a period of consolidation, although some observers believe this period of consolidation will have a more fundamental impact than previous ones. The most immediate effect of such a trend (if it continues) will be an increase in the polarization of the sector: globalizing large advertising accounts could squeeze out middle-market agencies, if the latter do not specialize their activities.

It is possible to hypothesize, therefore, a potential qualitative fragmentation of the advertising services sector within which the traditional limits (dividing per area the different agencies – of advertisement, of direct marketing, of sales promotions – and the different functions of each agency – strategic planning, media buying, creativity, etc.) will tend to mingle or even disappear, and the rigid separation between advertising users, agencies and media will also disappear.

The spread of knowledge and the relative, easier access to information and technology allow agencies (of different size) to operate effectively and efficiently in the market. It is critical that the single agencies define and aim at a determined positioning of the business paying more attention to their own characteristics and capacities rather than the opportunities and limits in the market.

The autopoietic theory of the development of companies is also confirmed in the sector of advertising agencies.

The study of how advertising agencies spread their activity abroad is quite complex in the sector. Usually, research into the level of internationalization in an industry collects data from two channels only – mergers and acquisitions (M&As) or trade (T). Nevertheless, the present research results make it necessary to adopt a more complex approach. Unfortunately, such an approach does not allow for a strict quantification of the internationalization phenomenon, but it is the only approach that permits a complete overview of what is happening.

Even though we considered the collection of data showing the evolution of M&As and trade over the years, we believe it advisable to take into account a 'qualitative' analysis as well, which otherwise would remain hidden among the data.

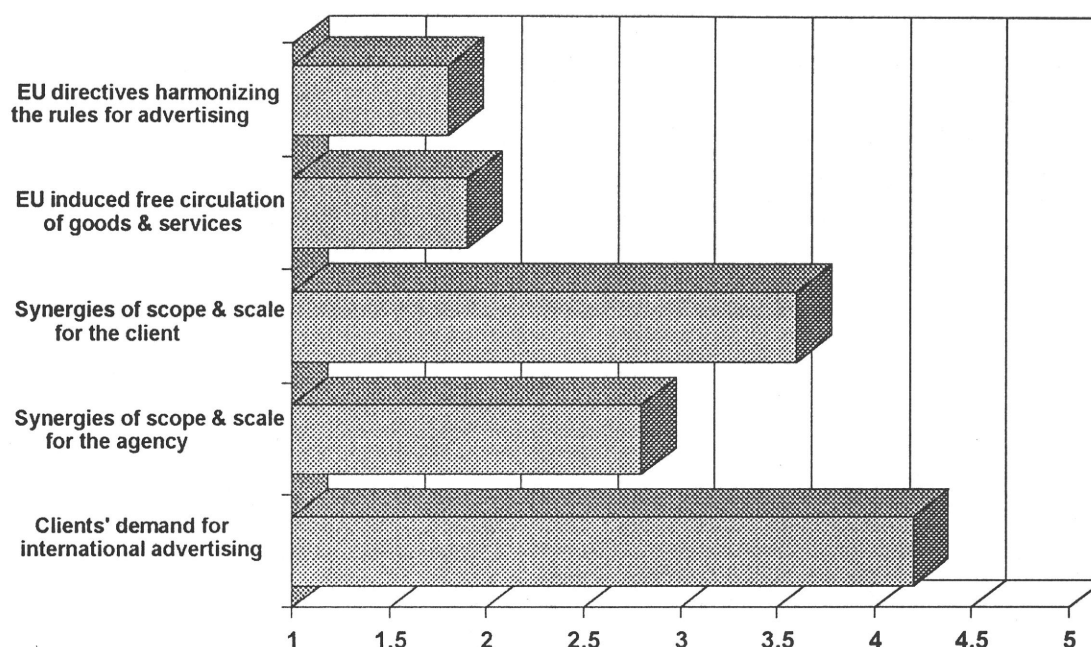
The ways in which advertising agencies have expanded internationally have been partly redefined in the 1980s and 1990s, as illustrated in Figure 5.2:

- (a) The M&As trend supporting the expansion of international advertising groups whose headquarters have 100% equity ownership in local subsidiaries has been lessening. However, other forms of internationalization have begun to play a significant role.
- (b) Trade is referred to, even though the role of this channel has always been weak in the international integration of the sector. The necessary proximity between service providers and clients – coupled with the need to plan advertising strategies which are consistent with 'country specific' factors such as the infrastructural, legislative and cultural framework – has historically hindered the important phenomenon of trade internationalization. It might be expected that once divergence between countries is eliminated, trade can achieve a role which it has never played before. Such a hypothesis is credible. If the media providers' and media buyers' sectors achieve an adequate level of internationalization, an advertising agency would be able to plan and implement a client's strategies in a foreign market directly, without employing a subsidiary in that market. In fact, many companies in the luxury industry, which use highly standardized advertising not requiring sophisticated media planning and buying, can already handle their campaigns directly from their country of origin. In Tables 5.3 and 5.4 we show trade trends in the advertising sector according to Eurostat. A rising historical series can be observed, but it is hard to make comparisons between the different countries since methodological shortcomings make the data unreliable. Eurostat researchers confirmed that data are collected from different pieces of research, which do not share a common methodological framework. Further, the credit and debit values cover a large series of services not really forming part of advertising services (e.g. participation in exhibitions, market studies, market surveys, opinion polls).

More important than the increase in simple trade rates is the increasing adoption of three further principal forms of internationalization:

- (c) M&As supporting the expansion of networks based on equity partnerships between the holding company and local subsidiaries;
- (d) the creation of affiliations or federations;
- (e) the creation of *ad hoc* co-operation.

Figure 5.1. Forces acting towards increased international integration in the advertising sector (Scale: 1. Not important, 5. Very important)



Source: Bocconi University.

Table 5.2. One or more advertising agencies? Factors impacting on the choice (Scale: 1. Not important, 5. Very important)

Factors	Average	
Organization of the company at European level	3.04	(38)
Organization of the advertising agencies	2.50	(38)
Media supply	1.84	(38)
Organization of media centres	1.72	(38)
EU regulatory framework	1.44	(38)

NB: Number of reliable answers in parentheses.

Source: Bocconi University.

M&As supporting the expansion of a network based on equity partnerships between the holding company and local subsidiaries have been greatly used by US and European networks – which have expanded quickly in the last 15 years. Among these are historical giants such as Euro RSCG, Publicis, DDB Needham, Bozell – often using both 100% equity ownership and majority/minority equity interests – and the agencies that have only recently begun to explore the potential of international expansion (for long-established advertising groups' and 'modern' networks' international distribution see Table 5.5). The latter seem to be the most interesting cases.

Lowe Group is an example of a real network that has been built recently. It is now present in 26 countries and claims billing of US\$ 2.6 billion. Even though it has taken a majority stake in its partner agencies, Lowe has not followed the classic multinational approach of creating local branch offices for which, in the typical network, international work represents 70% of billings. Lowe Group agencies take between 60% to 70% of revenues from local accounts. David Jones, chief executive of Lowe Group Europe, says: 'We would rather keep that balance because you get a good agency in each market. If the agency just implements international work, there is no stimulus for the creative.' And, again: 'How we built the network was by taking a simple point of view – we wanted to produce the best ads in terms of creativity and effectiveness. We went out to find relatively young agencies, run by their original partners, representing creative quality in their market, which were successful businesses.'

A similar philosophy has been adopted by Testa International, the only home-grown advertising network in Italy. It is driven by Armando Testa; it is the only Italian-owned agency of any real size, and the only independent survivor from the 1970s, when its domestic rivals sold out to the multinationals. After failing an attempt to operate in the US market, Testa developed a plan to spread its activity throughout Europe. It began searching for agencies similar to its own – i.e. agencies with a high level of creativity and similar size. In each market, the first stage of expansion consisted of a collaboration agreement lasting one or two years, followed by an acquisition programme, giving Testa a holding of up to 49%. The local manager was entitled to sit on the board, and to take on advertisers already belonging to Testa International. After having formalized its minority share holding, the Testa name was paired with the local partner's (now Testa International has an equity interest in partner agencies in Italy, the UK, France, Belgium, Germany, Spain, and works through affiliated agencies in Portugal, the Netherlands, Austria, Greece, Poland and Switzerland).

By creating a network, a faster and cheaper international expansion has been carried out. Further, a typical weakness of multinationals can be avoided, their lack of flexibility in problem solving and variable work quality, especially where creative activity is concerned. Overall management is co-ordinated in the client's country of origin, while managers in each country are responsible for local problems. Quality control, of work and client relations, is supervised by an international co-ordinator. For the creative work, the network may establish *ad hoc* teams made up of people from various countries.

In the last 15 years a large series of M&As involving European agencies has led to the creation of four large international advertising groups. Independently, since they principally use the 100% equity ownership or majority/minority equity interests, Europe-based advertising networks have reached the same global competitiveness as the historical US giants.

- Publicis Communication (Paris headquarters), the 13th international network in terms of gross income, holds equity in two networks, Publicis/FCB (51%) and FCA/BMZ (100%). FCA/BMZ was formed in April 1994 when Publicis merged its FCA Group European shops with BMZ, Düsseldorf.
- Euro RSCG (Levallois-Perret, France, headquarters), derives from the merger between Eurocom and RSCG Group which was the seventh international advertising network in terms of gross income.

- Cordiant (London headquarters) is the fourth international group in terms of gross income (1994), and includes Saatchi & Saatchi Advertising (the fifth international advertising agency for billing), Bates Worldwide, Campbell Mithum Esty, and Kobs & Draft.
- WWP Group, based in London, is the first international network in terms of gross income and capitalized volume. It includes the three agency networks, J. Walter Thompson Co., Ogilvy & Mather Worldwide, and Conquest Europe. It also includes several speciality agencies, Einson Freeman (sales promotion), CommonHealth USA (pharmaceuticals), Mendoza, Dillon & Asociados (Spanish-speaking markets); two large PR units, Hill & Knowlton and Ogilvy, Adams & Rinehart; three market research companies, Research International, MRB and Millward Brown.

Both from the perspective of 100% acquisitions and the exchange of minority/majority equity interests, a large number of deals have taken place in the EU in the last ten years.

Table 5.3. Advertising²⁰ credits intra EUR-12 (million ECU)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
EUR-12 to											
- intra EUR-12	1,194	1,324	1,579	1,745	2,010	1,978	2,155	2,489	2,937	3,196	3,278
- extra EUR-12	899	981	1,171	1,164	1,156	1,096	1,146	1,247	1,488	1,590	1,480
Belgium /Luxembourg											
- intra EUR-12	258	261	278	333	441	469	589	765	994	1,099	1,152
- extra EUR-12	100	101	108	129	89	84	72	116	191	110	83
Denmark											
- intra EUR-12	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- extra EUR-12	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Germany											
- intra EUR-12	158	183	214	233	261	252	339	329	335	398	446
- extra EUR-12	139	164	195	182	199	252	294	293	277	335	335
Greece											
- intra EUR-12	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- extra EUR-12	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Spain											
- intra EUR-12	29	32	33	39	62	85	123	178	248	240	274
- extra EUR-12	16	23	39	32	45	54	64	98	148	170	108
France											
- intra EUR-12	315	351	456	494	544	424	378	442	468	265	305
- extra EUR-12	281	337	422	389	341	222	204	198	236	139	145
Ireland											
- intra EUR-12	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- extra EUR-12	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Italy											
- intra EUR-12	65	85	111	121	139	189	222	229	286	408	286
- extra EUR-12	53	52	67	73	84	114	134	139	173	247	173
Netherlands											
- intra EUR-12	272	308	356	406	428	414	374	410	434	593	648
- extra EUR-12	203	206	226	257	280	250	276	296	332	422	519
Portugal											
- intra EUR-12	n.a.	7	12	7	8	8	10	12	14	18	36
- extra EUR-12	n.a.	8	7	6	5	5	7	8	7	8	12
United Kingdom											
- intra EUR-12	46	51	63	57	67	71	62	62	83	108	67
- extra EUR-12	49	58	68	60	72	72	64	64	81	118	69

Source: Eurostat.

²⁰ This covers expenditure on promoting products: design and organization of campaigns, rental of media, participation in exhibitions, etc. It also includes marketing and market survey costs (market studies, market surveys, opinion polls).

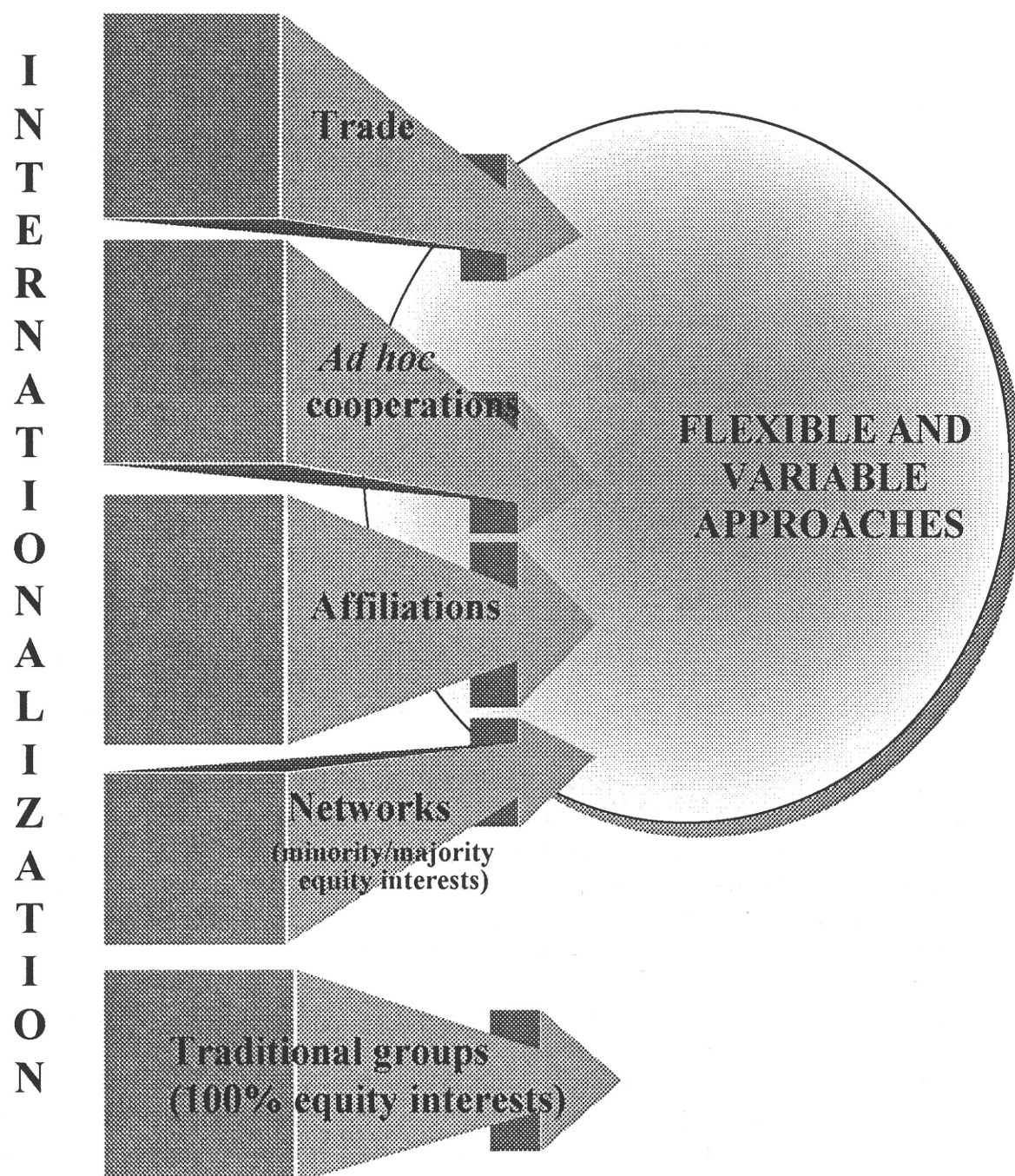
Table 5.4. Advertising²¹ debits intra EUR-12 (million ECU)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
EUR-12 to											
- intra EUR-12	1,516	1,596	1,981	2,198	2,363	2,456	2,880	3,354	4,121	4,278	4,410
- extra EUR-12	1,218	1,272	1,543	1,560	1,470	1,401	1,525	1,608	1,848	1,872	2,068
Belgium /Luxembourg											
- intra EUR-12	205	232	250	300	416	434	570	781	1,114	1,220	1,257
- extra EUR-12	102	116	125	150	74	77	75	66	140	79	47
Denmark											
- intra EUR-12	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- extra EUR-12	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Germany											
- intra EUR-12	291	304	383	365	392	433	522	613	706	801	801
- extra EUR-12	355	418	502	476	551	532	601	701	747	848	909
Greece											
- intra EUR-12	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- extra EUR-12	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Spain											
- intra EUR-12	74	75	75	99	142	168	239	244	291	308	384
- extra EUR-12	50	46	40	53	59	70	93	96	111	130	147
France											
- intra EUR-12	347	397	473	538	595	561	543	611	757	402	462
- extra EUR-12	284	329	355	339	326	198	183	185	198	153	188
Ireland											
- intra EUR-12	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- extra EUR-12	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Italy											
- intra EUR-12	127	180	241	242	304	382	425	487	573	612	585
- extra EUR-12	142	101	136	136	171	215	239	274	322	344	329
Netherlands											
- intra EUR-12	361	360	493	584	430	379	467	499	556	806	763
- extra EUR-12	208	216	333	355	230	247	271	218	256	240	355
Portugal											
- intra EUR-12	n.a.	6	6	7	8	9	10	13	17	16	36
- extra EUR-12	n.a.	7	7	6	6	8	8	11	12	11	21
United Kingdom											
- intra EUR-12	0	0	0	0	0	0	0	0	0	0	0
- extra EUR-12	0	0	0	0	0	0	0	0	0	0	0

Source: Eurostat.

²¹ This covers expenditure on promoting products: design and organization of campaigns, rental of media, participation in exhibitions, etc. It also includes marketing and market survey costs (market studies, market surveys, opinion polls).

Figure 5.2. Models of internationalization in the EU advertising sector



Source: Bocconi University.

Table 5.5. Multinational agencies with offices in more than 40 countries

Advertising groups	Agency	No of countries (1993)	No of countries (1994)	No of clients in more than 10 countries (1993)	No of clients in more than 10 countries (1994)
WWP	Ogilvy & Mather	57	61	28	27
	J. Walter Thompson	48	65	19	23
Omnicom	BBDO	59	63	21	25
	DDB	56	74	13	16
	Needham	56	74	13	16
Interpublic	Lintas	46	49	13	14
	Lowe Group		54		6
	McCann-Erickson	82	90	33	34
Cordiant	Saatchi & Saatchi	50	69	18	22
	Bates		57		19
Others	Bozell		56		18
	DMB&B	42	57	7	8
	Leo Burnett	48	50	11	13
	Euro RSCG		47		13
	FCB Publicis	51	51	17	14
	Grey	52	67	24	36

Source: WWP Annual Report 1994 (original source: *Advertising Age*) and International Management, April 1994 (original source: *WWP/Advertising Age*)

Tables 5.6 and 5.7 show the trend of the deals from the target nationality and the bidder nationality point of view (i.e. values are assigned respectively to the country where the acquired company is based, and to the country where the acquiring company is based). These include both advertising agencies and media buyers, and consider UK£ 10 million as the minimum value of a deal, unless the stake acquired is more than 30% (i.e. if 100% of a company is acquired for UK£ 2 million it is included).

A further breakdown is shown in Table 5.8. It shows that EU deals increased until 1989, both in terms of numbers and overall values (only 1995 values per target nationality were higher than 1989 ones, but only for deals occurring in Italy). After 1989, the number of deals gradually decreased until they achieved a certain stability. The large number of deals which took place in the second half of the 1980s can be explained by the favourable economic conditions of those years, and also by assuming that the most proactive advertising groups wished to be strategically and organizationally prepared for 1992 and its economic and legislative innovations.

Table 5.6. Bidder nationality (1985-95)

Country	1985		1986		1987		1988		1989		1990		1991		1992		1993		1994		1995		Total	
	Amt.m	Bids	Amt.m	Bids	Amt.m	Bids	Amt.m	Bids	Amt.m	Bids	Amt.m	Bids	Amt.m	Bids	Amt.m	Bids	Amt.m	Bids	Amt.m	Bids	Amt.m	Bids	Amt.m	Bids
Belgium	0,00	0	0,00	0	0,00	0	0,00	0	0,00	0	0,00	0	0,00	0	0,00	2	0,00	0	91.83	3	0,00	1	91.83	6
Denmark	0,00	0	0,00	0	0,00	0	0,00	0	0,00	0	0,03	1	2.69	5	0,00	5	0,00	4	0.49	2	0,00	2	3.21	19
Eire	0,00	0	0.81	1	0,00	0	0,00	0	0,00	0	0,00	0	0,00	0	0,00	1	0,00	1	0,00	0	1.25	1	2.05	4
Finland	0,00	0	0,00	0	0,00	0	2.43	2	5.15	8	0,00	1	0.86	4	0.42	6	0,00	3	0,00	0	0,00	1	8.84	35
France	0,00	0	0,00	0	0,00	0	0,00	0	145.81	15	80.50	24	72.33	22	177.91	1	40.67	11	190.82	12	2.86	11	710.91	106
Germany	0,00	0	0,00	0	0,00	0	0,00	0	0,00	6	0,00	3	0,00	5	0,00	3	0,00	0	2.00	4	0,00	4	2.00	25
Italy	0,00	0	0,00	0	0,00	0	0,00	0	5.11	1	0,00	1	0.68	3	0,00	1	0,00	5	0,00	0	151.14	1	156.93	12
Netherlands	0,00	0	0,00	0	0,00	0	0,00	0	0,00	2	0,00	1	0,00	2	0,00	1	0,00	0	0,00	0	0,00	1	0,00	7
Spain	0,00	0	0,00	0	0,00	0	0,00	0	0,00	1	0,00	3	10.89	2	0,00	1	0,00	2	0,00	0	0,00	0	10.89	9
Sweden	0,00	0	0,00	0	0,00	0	0,00	0	1.24	5	3.08	3	25.15	5	1.03	2	0,00	3	0,00	2	0,00	1	30.50	21
UK	55.36	6	536.67	21	600.36	30	247.04	37	793.96	38	130.70	22	61.63	13	25.03	7	63.13	12	32.52	13	88.23	16	2634.62	215
Western Europe	55.36	6	537.48	22	600.36	30	249.47	39	951.27	76	214.31	59	174.23	63	204.39	30	103.80	41	317.66	36	243.48	39	3651.78	459
Far East	0,00	0	0,00	0	0,00	0	0,00	0	0,00	0	20.48	1	0,00	0	1.36	2	0,00	0	63.63	5	103.99	2	194.46	10
US & Canada	0,00	1	12.50	4	97.11	3	0,00	2	162.10	11	145.16	13	0.57	7	98.32	9	108.98	25	209.52	25	396.29	15	1230.95	105

Notes:

Amt.m (STG) = the total bid value of the deals in million pounds sterling.

Bids = number of deals.

Source: AMDATA - Acquisitions Monthly.

Table 5.7. Target nationality (1985-95)

Country	1985		1986		1987		1988		1989		1990		1991		1992		1993		1994		1995		Total	
	Amt.m	Bids	Amt.m	Bids	Amt.m	Bids	Amt.m	Bids	Amt.m	Bids	Amt.m	Bids	Amt.m	Bids	Amt.m	Bids	Amt.m	Bids	Amt.m	Bids	Amt.m	Bids	Amt.m	Bids
Austria	0.00	0	0.00	0	0.00	0	0.00	0	3.35	1	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	3.35	2
Belgium	0.00	0	0.00	0	0.00	0	18.51	2	0.00	0	5.74	2	0.68	3	0.00	4	0.00	1	0.00	0	0.00	1	24.93	15
Denmark	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	4.78	7	2.69	5	0.00	5	0.00	6	0.49	0	0.00	3	7.96	30
Eire	0.00	0	0.00	0	0.77	3	0.09	1	0.00	0	0.00	0	0.00	0	0.00	1	0.00	1	0.00	0	0.00	0	0.86	6
Finland	0.00	0	0.00	0	0.00	0	2.43	2	4.10	9	6.43	2	3.42	7	1.45	17	0.00	3	0.00	0	11.26	5	29.09	45
France	0.00	0	0.81	1	0.00	1	66.28	2	298.68	11	0.00	16	7.01	9	175.41	6	40.67	9	286.45	0	0.00	9	875.32	76
Germany	0.00	0	0.00	0	0.00	0	0.00	0	5.98	12	0.00	4	0.00	6	0.00	6	14.77	3	5.49	0	16.20	9	42.44	53
Greece	0.00	0	0.00	0	0.00	0	0.00	0	0.00	1	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	1
Italy	0.00	0	1.00	1	0.00	0	0.00	0	5.30	3	6.36	2	1.36	4	1.36	3	25.61	9	0.00	0	856.21	2	897.82	24
Netherlands	0.00	0	0.00	0	1.16	1	37.82	1	0.00	3	30.07	2	0.00	5	0.00	1	0.00	1	3.16	0	0.00	1	72.20	16
Portugal	0.00	0	0.00	0	0.00	1	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	1	0.00	0	0.00	0	0.00	2
Spain	0.00	0	0.00	1	0.00	0	4.08	2	0.00	2	0.00	4	21.19	3	0.00	2	0.00	4	9.71	0	6.37	4	43.36	24
Sweden	0.00	0	0.00	0	0.00	0	0.00	1	2.28	7	26.14	3	23.15	4	0.00	1	0.00	3	0.92	0	0.00	9	52.49	23
UK	51.93	5	74.97	14	154.32	12	98.55	24	175.12	29	165.74	22	56.36	13	25.34	6	22.76	6	15.86	0	68.15	13	909.11	152
Western Europe	51.93	5	74.97	17	156.25	18	227.76	35	497.78	78	245.26	64	114.50	59	203.56	52	103.81	47	322.08	0	960.19	47	2958.93	469
Far East	0.00	0	0.00	0	0.00	0	1.26	1	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	66.15	0	103.99	2	170.40	6
USA & Canada	3.43	2	473.20	8	522.01	11	5.97	5	541.28	7	106.92	6	60.29	4	87.34	5	96.07	6	209.00	0	385.02	9	2489.53	75

Notes:

Amt.m (STG) = the total bid value of the deals in million pounds sterling.

Bids = number of deals.

Source: AMDATA - Acquisitions Monthly.

A comparison between the Member States points to the leading role of the UK as an advertising centre. During the whole of the second half of the 1980s UK operators as bidders promoted more than 80% of total EU deals, either in the UK or abroad. Only since 1990 have other countries begun to be markets in which operations of considerable size took place (among them, France especially, and Italy, mainly in terms of target country).

The comparison between the EU, US (and Canada), and the Far East as bidder and target regions shows that the European advertising market is the most dynamic, in which both the highest number of deals occurred, as well as deals of the largest value. The EU deals trend is characterized by a higher degree of 'fragmentation' than the US market: the average value of a bid occurring in the EU is significantly lower than in the US, no matter what historical period is considered. The Far East experienced great stability, although in 1994 and 1995 a certain number of deals took place (the fact that 1995 numbers and values coincide suggests that all the operators involved both as bidders and as target were local, thus confirming the traditionally low 'internationalization' of that particular advertising system).

Table 5.8. M&As per country (number of deals and values in UK£ million)

EU	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Bidder	6	22	30	39	76	59	63	30	41	36	39	459
Target	5	17	18	35	78	64	59	52	47	45	47	469

EU	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Bidder	55,36	537,48	600,36	249,47	951,27	214,31	174,23	204,39	103,80	317,66	243,48	3.651,78
Target	51,93	76,78	156,25	227,76	497,78	245,26	114,5	203,56	103,81	322,08	960,19	2.958,93

Austria	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Bidder	0	0	0	0	0	0	0	2	0	3	1	6
Target	0	0	0	0	1	0	0	0	0	1	0	2

Austria	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Bidder	0	0	0	0	0	0	0	0	0	0	0	0
Target	0	0	0	0	3,35	0	0	0	0	0	0	3,35

Belgium	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Bidder	0	0	0	0	0	0	0	2	0	3	1	6
Target	0	0	0	2	0	2	3	4	1	2	1	15

Belgium	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Bidder	0	0	0	0	0	0	0	0	0	91,83	0	91,83
Target	0	0	0	18,51	0	5,74	0,68	0	0	0	0	24,93

Table 5.8. M&As per country (number of deals and values in UK£ million)
(continued)

<i>Ireland</i>	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Bidder	0	1	0	0	0	0	0	1	1	0	1	4
Target	0	0	3	1	0	0	0	1	1	0	0	6

<i>Ireland</i>	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Bidder	0	0,81	0	0	0	0	0	0	0	0	1,25	2,05
Target	0	0	0,77	0,09	0	0	0	0	0	0	0	0,86

<i>Italy</i>	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Bidder	0	0	0	0	1	1	3	1	5	0	1	12
Target	0	1	0	0	3	2	4	3	9	0	2	24

<i>Italy</i>	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Bidder	0	0	0	0	5,11	0	0,68	0	0	0	151,14	156,93
Target	0	1	0	0	5,30	6,36	1,36	1,36	25,61	0	856,21	897,82

<i>Netherlands</i>	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Bidder	0	0	0	0	2	1	2	1	0	0	1	7
Target	0	0	1	1	3	2	5	1	1	1	1	16

<i>Netherlands</i>	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Bidder	0	0	0	0	0	0	0	0	0	0	0	7
Target	0	0	1,16	37,82	0	30,07	0	0	0	3,16	0	72,20

<i>Portugal</i>	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Bidder	0	0	0	0	0	0	0	0	0	0	0	0
Target	0	0	1	0	0	0	0	0	1	0	0	2

<i>Portugal</i>	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Bidder	0	0	0	0	0	0	0	0	0	0	0	0
Target	0	0	0	0	0	0	0	0	0	0	0	0

<i>Spain</i>	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Bidder	0	0	0	0	1	3	2	1	2	0	0	9
Target	0	1	0	2	2	4	3	2	4	2	4	24

<i>Spain</i>	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	Total
Bidder	0	0	0	0	0	0	10,89	0	0	0	0	10,89
Target	0	0	0	4,08	0	0	21,19	0	0	9,71	6,37	43,36

Table 5.8. M&As per country (number of deals and values in UK£ million)
(continued)

<i>Sweden</i>	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	<i>Total</i>
Bidder	0	0	0	0	5	3	5	2	3	2	1	21
Target	0	0	0	1	7	3	4	1	3	4	9	23

<i>Sweden</i>	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	<i>Total</i>
Bidder	0	0	0	0	1,24	3,08	25,15	1,03	0	0	0	30,50
Target	0	0	0	0	2,28	26,14	23,15	0	0	0,92	0	52,49

<i>UK</i>	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	<i>Total</i>
Bidder	6	21	30	37	38	22	13	7	12	13	16	215
Target	5	14	12	24	29	22	13	6	6	8	13	152

<i>UK</i>	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	<i>Total</i>
Bidder	55,36	536,67	600,36	247,04	793,96	130,70	61,63	25,03	63,13	32,52	88,23	2.634,62
Target	51,93	74,97	154,32	98,55	175,12	165,74	56,36	25,34	22,76	15,86	68,15	909,11

Source: AMDATA – Acquisitions Monthly.

The need to make a more thorough comparison of EU and US advertising systems has led us to analyse all the single important cross-border deals between operators of the two areas, either when the EU operator was the bidder or the target (Tables 5.9 and 5.10).

The number of deals of both types involving EU and US companies is considerable. Nevertheless, while deals in which EU companies operated as targets figure steadily over the years 1989 to 1994, deals in which EU companies assumed the role of bidders tend to be concentrated earlier (from 1986 to 1991). Unfortunately, no comparison of the values of operations is possible, since suitable values are available only for deals promoted by EU companies (the most significant deals were promoted by EU advertising groups as bidders, i.e. WWP Group-JWT Group deal announced in 1987 and WWP Group-Ogilvy Group deal announced in 1989).

While looking at EU agencies involved in deals as targets, one can note that they generally belong to countries entering the EU during those years: the former East Germany (in 1989 especially), Finland and Sweden. In all these countries the leading US advertising groups (Interpublic, Omnicom, Grey and Young & Rubicam) were keen to obtain equity interests in the highly competitive agencies.

Deals promoted by EU agencies generally consisted of operations promoted by UK groups (world leader WWP and Saatchi & Saatchi of Cordiant network), and were often intended to diversify the supply of communication services.

Although they are not 'quantitatively' as important as the international channels consisting of the acquisition of equity shares in foreign agencies (or creating them), other channels should also be considered. Their strategic importance is always higher, especially because of the opportunities they offer to the agencies which do not 'gravitate' around the major international advertising groups.

We refer to the federations (see (d), p. 72) in which there are neither equity relationships of such importance as in the networks, nor a proper leading agency (e.g. Elan). This approach is often criticized: while the problems of historical advertising groups traditionally concern their lack of flexibility, the problems of federations derive from their lack of authority. It is, however, an effective way for an agency to create relationships with foreign partners without a deep financial commitment, thus offering its national clients a useful support for foreign campaigns and sharing international budgets with advertisers operating in its country of origin with a partner agency.

Ad hoc strategic co-operations (see (e), p. 72) are achieving increasing success among both small and large agencies. Recent cases involve some of the most profitable and creatively interesting transnational campaigns, thus emphasizing the importance of this issue.

Sometimes agencies form strategic alliances in which one agency is responsible for the creative work, and the other for the remaining, more strategic and technical functions.

Levi Strauss Europe has a central headquarters in Brussels and its advertising creativity is wholly handled by the London 'hot shop' Bartle Bogle Hegarty. In each market Levi's also has local affiliates which implement and initiate programmes with local agencies within the framework which Levi Strauss Europe and BBH have worked out. Robert Holloway, European marketing director for Levi Strauss, explains the way his company works: 'The primary decision for us is: "Where is the centre of excellence in terms of creativity and strategy?" From our perspective, we would rather have an outstanding central idea to export than a series of conflicting decisions that dictate strategy across Europe.'

British Airways appointed the New Saatchi Agency, which is to handle a US\$ 130 million global campaign jointly with the French network Publicis and its media buyer Optimedia.

The independent UK agency Simons Palmer Denton Clemmow & Johnson won the European Sony Pay station video game budget, participating at the pitch in partnership with Ogilvy & Mather.

These examples illustrate the break with the traditional advertising techniques of international companies, that is to say, the use of a single advertising network. Agencies now seem willing to act as account handlers in a more real sense, contracting advertising activities to the most appropriate provider, helping advertisers obtain the best service even if this means creating a portfolio of normally competing suppliers.

At the same time, the potential of using a larger number of agencies, working together, depends on the marketing competence of the client, i.e. the capacity to plan a clear-cut marketing and advertising strategy and to handle the relationships between everyone involved in the advertising projects.

Table 5.9. US and EU cross-borders deals in the advertising agency and media buyer sector (EU target/US bidder)

Announcement date	EU target	Target activity	US bidder	Bidder activity	Bid value STG (million)
24 May 1986	Royds advertising Group	Advertising agencies	Interpublic Group of Companies Inc. (US)	Advertising agency	12,500
				Total bid value 1986	12,500
24 Sep 1987	Newlon & Godin	Advertising agency	Grey Communication Group (US)	Advertising & communications	3,000
				Total bid value 1987	3,000
1 Feb 1989	Hagenluecke Direct Marketing (Germany)	Advertising consultancy	Footo Cone & Belding Communications Inc. (US)	Advertising agency	n.a.
30 Mar 1989	Pharma Kommunikation KJ Schaeper GmbH (Germany)	Advertising agency	Interpublic Group of Companies Inc. (US)	Advertising agency	n.a.
19 Apr 1989	FCB Hagenluecke Direct (Germany)	Advertising consultancy	FCB International (US)	Advertising consultant	n.a.
19 May 1989	Ecase Massimi Pollitt PtC (B d 2)	Advertising agency	Omnicom Group Inc. (US)	Advertising agency	125,350
21 Jul 1989	Wensauer & Partner (Germany)	Advertising agency	Omnicom Group Inc. (US)	Advertising agency	n.a.
9 Aug 1989	Hall & Cederquest (Sweden)	Advertising agency	Young & Rubicam Inc. (US)	Advertising, public relations & marketing services	n.a.
23 Sep 1989	Ayer Barker (75%)	Advertising agency	Ayer Inc. N W (US)	Advertising	n.a.
29 Sep 1989	Hidmarn & Schneider (Germany)	Advertising agency	Team / BBDO (US)	Advertising agency	n.a.
1 Nov 1989	Celacroik Clipper (France)	Advertising	Interpublic Group of Companies Inc. (US)	Advertising	n.a.
1 Nov 1989	Universal Media (France) (34%)	Advertising space	Interpublic Group of Companies Inc. (US)	Advertising	n.a.
				Total bid value 1989	n.a. (125,350)

Table 5.9. (continued)

Announcement date	EU target	Target activity	US bidder	Bidder activity	Bid value STG (million)
1 Feb 1990	Nielsen - Mikkelsen & Duus (Denmark) (70%)	Advertising agency	Omnicom Group Inc. (US)	Advertising agency	1,548
20 Apr 1990	Mallermann Summerfield	Advertising agency	Interpublic Group of Companies Inc. (US)	Advertising	n.a.
13 Jun 1990	Marketing Odense (Denmark)	Advertising	Grey Advertising Inc. (US)	Advertising	n.a.
13 Jun 1990	Sven Lassen (Denmark)	Advertising	Grey Advertising Inc. (US)	Advertising	n.a.
9 Aug 1990	Yellowhammer Advertising (in receivership)	Advertising agency	D'Arcy Masius Benton & Bowtes Inc. (US)	Advertising agency	n.a.
14 Aug 1990	Ronnberg & Co (Sweden)	Advertising agency	Interpublic Group of Companies Inc. (US)	Advertising	12,336
28 Aug 1990	Hvid Schmidt & Thomsen A/S (Denmark)	Advertising agency	Young & Rubicam Inc. (US)	Advertising, public relations & marketing services	n.a.
5 Sep 1990	Extern-bord Kommunikation A/S (Denmark)	Advertising agency	Grey Advertising Inc. (US)	Advertising	1,779
11 Sep 1990	WWI Werbung GmbH (Germany)	Advertising	Grey Advertising Inc. (US)	Advertising	n.a.
20 Sep 1990	Lowe Group PLC	Advertising & PR	Interpublic Group of Companies Inc. (US)	Advertising	117,545
1 Oct 1990	Eurocorporate SA (France)	Advertising	Omnicom Group Inc. (US)	Advertising agency	n.a.
				Total bid value 1990	n.a. (133,208)
1 Feb 1991	WWAV North Ltd	Direct sales & marketing	Omnicom Group Inc. (US)	Advertising agency	n.a.
12 Feb 1991	Werbeagentur Frenz GmbH (Germany) (80%)	Advertising agency	Ketchum Communications Holdings Inc. (US)	Advertising agency	n.a.
20 May 1991	Brand Sellers Oy (Finland) (30%)	Advertising agency	Omnicom Group Inc. (US)	Advertising agency	0,284
7 Jun 1991	Mediapalvelu Oy (Finland)	Advertising	Young & Rubicam Inc. (US)	Advertising, public relations & marketing services	n.a.
5 Jul 1991	Pertzbom GmbH & Co KG (Germany)	Advertising agency	Grey Advertising Inc. (US)	Advertising	n.a.
24 Oct 1991	FNS Marktforschung GmbH (Germany)	Advertising	Dun & Bradstreet Corporation (US)	Business Services	n.a.
30 Oct 1991	Fama Srl (Italy) (30%)	Advertising	Omnicom Group Inc. (US)	Advertising agency	n.a.
				Total bid value 1991	n.a. (0,284)

Table 5.9. US and EU cross-borders deals in the advertising agency and media buyer sector (EU target/US bidder) (continued)

Announcement date	EU target	Target activity	US bidder	Bidder activity	Bid value STG (million)
8 May 1992	Partner Gesellschaft fuer Communication Creation (majority %)	Advertising	Young & Rubicam Inc. (US)	Advertising, public relations & marketing services	n.a.
14 Aug 1992	SweCom Media AB (Sweden) (51%)	Advertising	Grey Advertising Inc. (US)	Advertising	n.a.
17 Aug 1992	Brader Jang Behnken Werbeagentur GmbH (Germany) (majority %)	Advertising	Interpublic Group of Companies Inc. (US)	Advertising	n.a.
				Total bid value 1992	n.a.
1 Jan 1993	Heye & Partner GmbH (Germany) (majority %)	Advertising agency	Omnicom Group Inc. (US)	Advertising agency	n.a.
7 Jan 1993	Paradisat AB (Sweden) (51%)	Advertising	Omnicom Group Inc. (US)	Advertising agency	n.a.
28 Jan 1993	Gronning & Tjagvad A/s (Denmark)	Advertising agency	Grey Advertising Inc. (US)	Advertising	n.a.
16 Mar 1993	Tbwa de Plas (France)	Advertising agency	Omnicom Group Inc. (US)	Advertising agency	n.a.
19 May 1993	EPG Lisboa (Portugal) (15%)	Advertising agency	Omnicom Group Inc. (US)	Advertising agency	n.a.
6 Oct 1993	EBDO Italia SpA (Italy) (40%)	Advertising agency	Omnicom Group Inc. (US)	Advertising agency	n.a.
				Total bid value 1993	n.a.

Table 5.9. (continued)

Announcement date	EU target	Target activity	US bidder	Bidder activity	Bid value STG (million)
3 Jan 1994	I&J Business to Business A/S (Denmark)	Direct marketing	Omnicom Group Inc. (US)	Advertising agency	n.a.
28 Feb 1994	Umbruch Konzepte & kampagnen Werbeagentur GmbH (Germany) (majority %)	Advertising agency	Omnicom Group Inc. (US)	Advertising agency	n.a.
14 Apr 1994	Euro Advertising GmbH (Germany) (51%)	Advertising	Interpublic Group of Companies Inc. (US)	Advertising	n.a.
5 Jul 1994	Heye Direct Response GmbH (Germany) (majority %)	Advertising agency & market research	Omnicom Group Inc. (US)	Advertising agency	n.a.
6 Jul 1994	Melzer Randelhoff Gesellschaft (Germany) (majority %)	Advertising & market research	Omnicom Group Inc. (US)	Advertising agency	n.a.
3 Oct 1994	Werne & Andren AB (Sweden) (50%)	Advertising agency	Leo Burnett World Wide Inc. (US)	Advertising agency	0,921
17 Oct 1994	Andren Werne AB (Sweden) (50%)	Advertising agency	Leo Burnett World Wide Inc. (US)	Advertising agency	n.a.
20 Oct 1994	Werbeagentur Eggert (Austria) (majority %)	Advertising agency	Grey Advertising Inc. (US)	Advertising	n.a.
1 Nov 1994	Alice (France) (50%)	Advertising	Interpublic Group of Companies Inc. (US)	Advertising	n.a.
10 Nov 1994	Corland Werbeagentur GmbH (Germany) (majority %)	Advertising agency	Grey Advertising Inc. (US)	Advertising	n.a.
Total bid value 1994					n.a. (0,921)
10 Feb 1995	Catum Oy (Finland) (92%)	Advertising agency	Omnicom Group Inc. (US)	Advertising agency	n.a.
3 Mar 1995	MESAP Werbung GmbH (Germany) (majority %)	Advertising	Schlumberger Ltd (US)	Oil services & measurement	n.a.
14 Mar 1995	Eurocorporate SA (France)	Advertising	Young & Rubicam Inc. (US)	Advertising, public relations & marketing services	n.a.
15 Sep 1995	Rosendal Tankvirksomhed A/S (Denmark)	Advertising	Grey Advertising Inc. (US)	Advertising	n.a.
4 Oct 1995	Hasan & Partners Oy (Finland)	Advertising	Interpublic group of Companies Inc. (US)	Advertising	11,264
24 Oct 1995	Connexion Oy (Finland)	Advertising agency	Grey Advertising Inc. (US)	Advertising	n.a.
20 Nov 1995	British Transport Advertising Ltd (Bus side business)	Bus side advertising services	Transportation Displays Inc. (US)	Transport advertising services	n.a.
Total bid value 1995					n.a. (11,264)

Source: AMDATA - Acquisitions Monthly.

Table 5.10. US and EU cross-borders deals in the advertising agency and media buyer sector (US target/EU bidder)

Announcement date	US target	Target activity	EU bidder	Bidder activity	Bid value STG (million)
25 Feb 1986	Cancer Fitzgerald Sample (US)	Advertising agency	Saatchi & Saatchi Company PLC	Advertising & marketing services	52,440
15 Apr 1986	Eacker & Spielvogel (US)	Advertising agency	Saatchi & Saatchi Company PLC	Advertising & marketing services	33,364
12 May 1986	Ted Bates (US)	Advertising agency	Saatchi & Saatchi Company PLC	Advertising & marketing services	295,936
5 Jun 1986	HBM- Creamer (US)	Advertising & public relations	Wight Collins Rutherford Scott (Holdings) PLC	Advertising & marketing	33,137
30 Aug 1986	Cella Femina Travisano (US)	Advertising agency	Wight Collins Rutherford Scott (Holdings) PLC	Advertising & marketing	43,721
23 Dec 1986	Gordon Enterprises (US)	Radio & television commercials	Carlton Communications PLC	Television broadcasting services	14,601
				Total bid value 1986	473,199
26 Jan 1987	Millenium Design Communications (US)	Advertising agency	Moorgate Group	Public relations, advertising & marketing	0,320
7 May 1987	Robert A. Becker (US)	Medical advertising agency	WCRS Group PLC	Advertising & marketing	6,000
14 May 1987	Ammirati & Puris Inc. (US)	Advertising agency	Boase Massimi Pollitt PLC	Advertising agency	19,086
10 Jun 1987	JWT Group Inc. (US)	Advertising agency	WPP Group PLC	Marketing services & advertising	347,388
5 Aug 1987	Adams Publishing Group US)	Public relations & advertising	Snandwick PLC	Public relations	4,346
28 Aug 1987	Reese Communications Companies (US)	Advertising	WPP Group PLC	Marketing services & advertising	n.a.
28 Aug 1987	Targeting Systems (US)	Advertising	WPP Group PLC	Marketing services & advertising	21,856
15 Sep 1987	Laurence Chares Free & Lawson (US)	Advertising	Lowe Howard-Spink & Bell P.C.	Advertising	15,000
16 Dec 1987	Mendoza Dillor & Asociados (US)	Advertising agency	WPP Group PLC	Marketing services & advertising	13,904
				Total bid value 1987	427,900
24 Feb 1988	Knoth & Meath (US) (Recruitment Advertising Division)	Recruitment advertising	Saatchi & Saatchi Company PLC	Advertising & marketing services	0,536
24 May 1988	Eabbit & Reiman (US)	Advertising agency	Gold Greeniees Trott PLC	Advertising agency	1,399
12 Sep 1988	Coast-United (US)	Advertising	More O'Ferrall PLC	Advertising	3,538
				Total bid value 1988	5,473

Table 5.10. (continued)

Announcement date	US target	Target activity	EU bidder	Bidder activity	Bid value STG (million)
11 Jan 1989	Donahue and Associates Advertising (US)	Advertising	WPP Group PLC	Marketing services & advertising	3,586
1 Mar 1989	Messner, Velere, Berger Carey, Schmetleren (US) (51%)	Advertising	Roux Seguela Cayzac & Goudard (France)	Advertising	n.a.
28 Apr 1989	Ogilvy Group (US)	Advertising & marketing)	WPP Group PLC	Marketing services & advertising	505,290
12 May 1989	Martin Williams (US)	Advertising agency	Gold Greenlees Trott PLC	Advertising agency	10,183
16 Jun 1989	Lowe Marschak (US) (70%)	Advertising agency	Lowe Howard-Spink & Bell P.C.	Advertising & public relations	18,400
20 Jul 1989	Anderson Communications (US)	Recruitment, advertising & public relations	WPP Group PLC	Marketing services & advertising	3,716
1 Sep 1989	Lalily, McFarland, Pantello (US)	Advertising	Roux SeguelaCayzac & Goudard (France)	Advertising	n.a.
				Total bid value 1989	541,175
23 Jan 1990	Thomas G. Ferguson Associates (US)	Healthcare marketing	WPP Group PLC	Marketing services & advertising	25,435
20 Feb 1990	GSD & M (US)	Advertising agency	Gold Greenlees Trott PLC	Advertising agency	28,488
1 Apr 1990	Wells Rich Greene (US) (40%)	Advertising agency	Boulet Dru Ducury Petit SA Groupe (France)	Communication services	43,313
25 May 1990	Graphic Warehouse (US)	Graphic arts services	Wace Group PLC	Pre-press services	0,947
				Total bid value 1990	98,183
5 Feb 1991	Eloom (US)	Advertising agency	Feldman Calleux et Associes (France)	Advertising	n.a.
1 Jun 1991	Tatham Laird & Kudner (US) (19%)	Advertising	Roux Seguela Cayzac & Goudard (France)	Advertising	n.a.
13 Jun 1991	Wells Rich Greene (US) (30%)	Advertising agency	Boulet Dru Ducury Petit SA Groupe (France)	Communication services	60,286
9 Aug 1991	Charles W Pelly Designworks Inc. (US) (50%)	Design & advertising	Bayerische Motoren Werke AG (Germany)	Motor vehicles	n.a.
				Total bid value 1991	n.a. (60,286)
18 Jan 1992	Goodwir Dannebaum Littman & Wingfield (US)	Advertising agency	Saatchi & Saatchi Company PLC	Advertising & marketing services	2,189
				Total bid value 1992	2,189

Source: AMDATA - Acquisitions Monthly.

5.2. The evolution of media buying, media research and production sectors

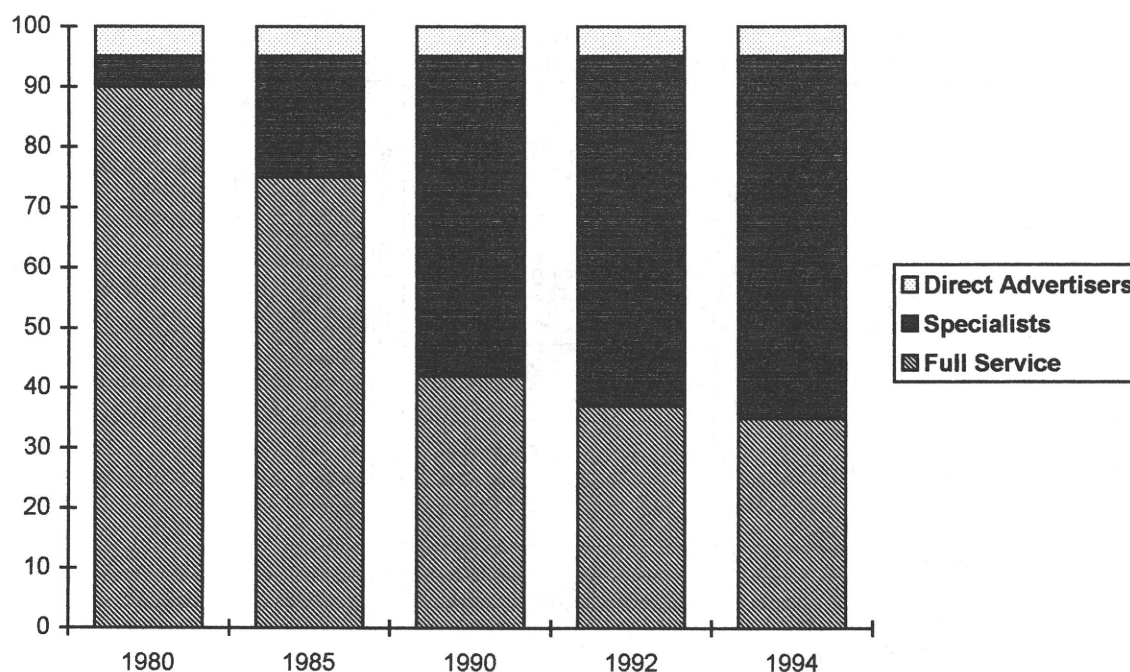
5.2.1. Media buying

As already mentioned, in the last ten years the media system has become much more complex. This trend has taken place thanks to the development of new technologies. A context where the number and the degree of specialization of vehicles has considerably increased, has made the role of media functions crucial, and has imposed higher degrees of specialization and new tools on the operators. Thus, media planning and buying activities have become more specialized: in an increasing number of cases advertising agencies have given up managing these activities internally, and they have become the core activities of media-buying agencies. Figure 5.3 shows the size of this trend by identifying the total media spaces/times bought by advertisers directly, by specialized media agencies, and by full service advertising agencies.

Inside a media system of increasing complexity both at local and European levels, the supply of services provided by media-buying agencies is very complex too. In fact, media agencies can operate under advertising agencies' control or in an independent way. Moreover, media agencies operating under advertising agencies' control can manage all or part of the planning and buying activities relating to media (such agencies, usually called 'clubs', belong to more than one advertising agency, and are established for the collection of large numbers of purchases in order to enjoy economies of scale).

Figure 5.3. Share of media expenditure by media buying outlet

(%)



Source: Carat.

Table 5.11. Classification of European media buyers

Independent media agencies		Media agencies under advertising agencies' control			
Local	International	Full service		Partial service	
		Local	International	Local	International
	Cia Medianetwork Carat		Initiative (Lintas) Zenith (S & S)		TMP (WWP and Omnicom)

Source: Medianetwork International.

Table 5.11, besides showing the equity profile of media agencies, also underlines the possibility of operating at the local or European level. Such a distinction is very interesting and of increasing importance: many media agencies are pursuing an internationalization process that is similar to the one that advertising agencies have been following for a long time. Like advertising agencies, media agencies have also created international networks which spread their activities over a growing number of countries. Furthermore, media agencies' networks tend to achieve even bigger international market positions than those of advertising networks, because of the large economies of scale that exist in this field.

Although the attainment of a large management budget remains the key factor in determining competitive strategies in the field, some recent cases point to a certain attenuation of the never-ending increase of media-buying agencies – and in the budgets they handle.

These examples can be found particularly among the media agencies created through the partnership of two or more advertising networks. The era of 'bigger is always better' may be ending on the European scene, where over the last ten years, the market has been defined by large media buying groups as advertising agencies banded together to match the buying clout of rival independent buyers like Carat and CIA. Now large agencies are clawing back strategic media functions: Europe's rapidly changing media scenario raises questions about the long-term prospects of media buying groups made up of rival agencies.

It has to be noted that, even though international networks are present across the whole of Europe, media planning and buying are usually managed locally. This is due to the scarcity of pan-European media, allowing media agencies to adopt a European integrated way of planning and buying. It is also due to the different styles of negotiation between media suppliers and media buyers and, more generally, to the different styles of planned media services.

Practitioners interviewed distinguished between three main ways of planning services supplied by media agencies, and have looked to localize them across Europe:

- (a) The 'administrative media services concept': this is the most old-fashioned way of planning a media service. It essentially consists of the control of the quantity and quality of the spaces purchased. Hence, the buying and, even more, planning activities have a scarce added value. It still survives in the media markets of Germany and Scandinavia, which are traditionally quite rigid.
- (b) The 'commercial-financial media services concept': the core activities consist of managing purchases and enjoying the discounts. The leading role among media operators is thus the one related to buying rather than to planning. The media agency operates like a broker, and is not involved in companies' communication strategies; its income is closely related to the difference between the discounts obtained by the media

agencies, which manage large purchase quantities, and the smaller ones, obtained by the single advertiser. Such a model seems to prevail in France and Spain.

- (c) The 'marketing media services concept'. This is the most developed media services concept. In such a model, the functions of strategic planner, media planner and media buyer are strongly linked in an integrated whole. It is the leading concept in the UK and Italian media markets, and is spreading across the whole of Europe because of the increasing international integration of media systems and companies' communication strategies.

5.2.2. Media research

As well as the media providers sector, the media research sector is still characterized by a local perspective. Even though there is an increasing concentration inside the field – the institutes responsible for TV research are usually the same across Europe (e.g. AGB and Nielsen), research methodologies are still quite different (see Section 4.2.2 above).

Moreover, pan-European research is very rare and is mainly focused on Euro-clusters such as business-to-business (e.g. EBRs – European Business Readership Survey) and satellite and cable TV audiences (e.g. PETAR – Pan-European Television Audience Research).

5.2.3. Production services

The production field is characterized by a certain fragmentation throughout Europe: every country has its own numerous production companies. Such a local profile has not substantially changed in the last few years, as far as TV advertising is concerned. Even though production companies engaged by advertising agencies are local, many operators – especially those supplying the creative part of the service such as directors – work as freelancers and operate internationally.

Throughout Europe two leading types of TV producer predominate:

- (a) production companies offering structures and expertise mainly in terms of organization;
- (b) production companies managed by TV/cinema directors. These companies can achieve a very high degree of creativity, but are usually not able to expand their horizon and dimension of activities very far.

5.3. Scale and scope effects

5.3.1. Scale and scope effects in the global advertising value-added chain

The development of cost-effectiveness in the advertising business was analysed by evaluating actual and potential economies of scale and scope²² inside the advertising services' value-added chain. The main sources of scale and scope effects for European advertising services derive from the possibility of centralizing tangible and intangible advertising inputs at the

²² By *economies of scale* we mean advantages in terms of cost savings achievable when output grows more than proportionately to input. The meaning used in referring to these effects is very broad: together with economies of scale in the strict sense (real economies of scale), we consider those which some academics call 'pecuniary economies' (Bain [1948]), or 'economies through control of markets' (Pratten [1971]). Such economies reflect cost savings related to a better control over negotiations, and some academics do not include them among scale economies, since they do not necessarily depend on the company's scale (even small companies may benefit from pecuniary economies, if they operate in monopsonic conditions). By *economies of scope* we mean reductions in average production costs deriving from the combined production of more than one good/service within the same process.

European level, and exploiting the value and synergies thereby created in each country. Such a phenomenon can be better understood in the following terms: outputs (e.g. creative ideas) deriving from a centralized use of some productive factors (e.g. a European creative department working on a pan-European campaign and including the best talents in the network) can be exploited in various local campaigns through replications with extremely low marginal costs (i.e. translations, marginal adaptations, etc.).

The more standardized European advertising is, the greater is the number of value-added activities in which the above phenomenon may occur.

One result emerged very clearly during the research: the way the client-agency relationships have developed over the last 15 years has made the client the party who achieves the greatest benefits from the standardization of advertising strategies (and from the centralization of the operation in a single advertising structure). This point was continuously stressed during the interviews with the advertising agencies, no matter what their size or range of activities. Hence, the attempt to evaluate economies of scale and scope in the activities constituting the global advertising value-added chain has to be interpreted from this fundamental perspective.

Although an effort was made to collect specific information concerning efficiency improvements due to an international approach, no quantitative processing was appropriate. The typical interview provided general information about cost savings in overall advertising production and its single phases (see below), but every respondent stressed the leading role of creativity and originality in the value-added process (advertising agencies tended to move inside the 'quantity/quality' conceptual alternative, laying perhaps a simplistic emphasis on the second dimension).

Particular attention has to be paid to the fact that the concepts of efficiency (especially deriving from economies of scale) and effectiveness (especially deriving from economies of scope and synergies) are closely linked. Among advertising agencies there is more 'sensitivity' to the second dimension.

In strategic and creative activities, there tend to be frequent economies of scale and scope in transnational campaigns. Further, since the standardization of strategic and creative functions moves from the general (strategy) to the particular (basic creative treatment, language treatment etc.), strategic activities tend to carry more scale and scope effects than creative treatment. This is because strategic standardization is the *necessary condition* for standardizing creative elements (see Table 4.3, where the standardization degrees are referred to individual advertising functions).

Section 4.2.3 explained why convergence of customer behaviour is the fundamental condition for the standardization of these functions. As shown in Table 4.4, standardized strategic planning has always been more appropriate for EU advertisers belonging to the luxury and youth industries, which can exploit the greater behavioural homogeneity of their customers. The harmonization of the general environment (including the legislative framework) concerning advertising content, can also be a very important stimulus to strategic planning standardization, especially for certain categories of FMCG products (e.g. alcoholic products or pharmaceuticals). Taking Table 5.12 into consideration – where advertisers' opinions on overall advertising activities are collected – it becomes clear that FMCG companies show the greatest interest in the convergence of the regulatory framework as a factor that will foster

standardization in the future. (The average value of youth advertisers is very high too, due to the fact that cultural convergence cannot improve significantly yet.)

Cost savings deriving from the centralization of activities affect the account area too. A practice of increasing importance, as will be seen in the next chapter, is the establishment of 'European Account Departments' either in the agency headquarters, or in a subsidiary agency which drives the international client's advertising project. It should also be noted that, from the agency's point of view, transnational projects – although they generally benefit from centralization – can suffer supplementary costs, related to the greater complexity of their management (these are listed in Section 5.3.2). It is only when a comparison is made between the agency's costs and remuneration schemes that the real convenience of transnational campaigns emerges – and the respondents often emphasized that this is missing.

Table 5.12. Factors that will foster standardization in the next five years (Scale: 1. Not important, 5. Very important)

Factors	Average			
	B-to-B (19)	FMCG (18)	Luxury (9)	Youth (8)
Convergence of consumer behaviour	3.4 (19)	3.2 (18)	4.3 (9)	3 (8)
Regulatory framework derived from single market integration	2.3 (19)	3.2 (18)	2.4 (9)	3.1 (8)
Media development	2.6 (19)	3.2 (18)	3.9 (9)	2.7 (8)

NB: Number of reliable answers in parentheses.

Source: Bocconi University.

Standardization of creative functions is also the source of very important cost savings related to advertising production. The main costs of this activity relate to the original advertising format (i.e. the specific TV commercial, the specific press advertisement), but its replication or adaptation generates relatively low marginal costs. After the design of the format has been executed at the European level, its local or central replication – with greater or lesser adaptations – can be effected at low additional costs. Production costs for exploiting replication in every EU country tend to be lower than those which an agency would incur if the format were produced originally in each country. Among the factors that affect this type of economies, apart from the factors influencing creative standardization, are the removal of barriers to the use of the same advertising material. As shown in Table 3.1, 58% of advertisers think that this has produced a slight cost reduction, and 13% of advertisers have not noticed significant changes yet, but suppose there will be some decrease if changes occur.

In media planning activities too, cost savings can be exploited through the centralization of European inputs. The standardization of this activity at a European level, however, rarely amounts to very detailed transnational media planning. Such a limit derives from three basic handicaps. The first of these is the scarcity of pan-European media and their diverse penetration in different Member States. It has to be stressed that an appropriate development of pan-European media could considerably increase the scale and scope economies in media planning. A second factor is the limited amount of European research, and the lack of harmonization in the methodologies of national media research. Thirdly, there is the need to link media planning to media buying, which still remains an activity with a local decisional horizon. Thus, transnational media planning always needs a lot of support from local agencies. Scale and scope effects, although they do exist, are rather limited at an international level. Nevertheless, European integration has contributed to significant scope economies at a

national level, by providing a common legal framework that, however limited, has contributed to the birth of new – often specialized – channels and to the increase of inter-media competition.

In media buying activities, cost advantages are typically monetary economies: the purchase of large amounts of media space/time can be accompanied by proportional discounts.

This practice helps to understand the recent growth in size of the main operators – media buyers – through numerous M&As, with a consequent increase in the budgets managed. Among the different kinds of media agencies, the ‘clubs’ are those whose *raison d’être* is especially related to the opportunity of exploiting greater market power with regard to media suppliers. This sort of media buyer is under the control of more than one agency, and manages purchases of considerable size.

Three further observations are necessary:

- (a) The exploitation of monetary economies is still limited in the national environment. Because of the low availability of pan-European media, media buying is very rarely centralized at the European level. Hence, cost advantages are only very significant while operating at the local level, even if they are potentially enormous from the transnational perspective. At the local level, scale economies have considerably increased as a result of the increased competition between media, to which European integration has significantly contributed. The interviews with international media providers also tested attitudes to the offer packages of media vehicles covering different countries (and possibly involving cost savings). It was discovered that this sales activity is still very unusual (although some projects are on schedule such as *Elle* magazine, which has similar versions all over Europe targeted at a homogeneous group of highly ‘culturally-positioned’ women).
- (b) The trend, just as at the beginning (i.e. the Sapin law in France) of imposing greater transparency in media space negotiations can greatly reduce quantity discounts (often granted in the form of kickbacks).
- (c) The exploitation of monetary economies occurs at different degrees of intensity across Europe, because it depends on national practices of managing negotiations related to media. Thus, while the Italian media spaces market (television spaces, especially) is characterized by the heavy and sometimes unscrupulous use of discounts – which even distort research data evaluating advertising expenditure – the German market is very transparent.

In research activities applied to media effectiveness and to the planning and control of advertising strategies, cost savings are related to the rationalized employment of inputs, which is achievable through the various forms of European process conjunction.

Thus, if a researcher develops a market survey to help a company to define a transnational positioning, a sample representing the whole Euro-segment can be used, but it can be narrower than the total of national samples that would be used while carrying out research in each country. Such European research approaches still seem to be relatively uncommon, judging from the interviews carried out. Even though the main research organizations tend to use an increasing number of European researcher networks (i.e. Risc, Euroquest), there is still a wide diversity in the methodologies used across Europe.

The same is true for media effectiveness research, for which the greatest obstacles to pan-Europeanization are the scarcity of pan-European media and the large diversity of national methodologies.

An attempt was also made to test the role of economies of scale and scope in the diversification strategies of the advertising agencies. However, the people in charge of the advertising agencies (not only the creative personnel) seemed to have some difficulty in confronting this issue. In the majority of cases it was found that diversification was not supported by an adequate evaluation of the potential economies of scale and scope.

5.3.2. European account headquarters and transnational campaigns

The increasing importance of handling international clients – with increasing transnational projects – has required some changes in the organizational structure and operations of the advertising networks. Although a great variety of solutions have been adopted (such as international extension, the equity base philosophy, types of clients of the networks), some common elements emerged during the research. As clients' requirements are the leading factor impacting on the extension and forms of the networks' internationalization, the agencies' operations reflect the advertisers'. Therefore, advertising agencies are moving towards a 'glocal' approach ('by thinking globally, acting locally, managing regionally'). Various changes are apparent. The recent past provides evidence of these changes. Some of the major world-wide advertising agencies have modified aspects of their value chain by appointing regional account and creative directors at the European level, in order to facilitate creative development for, and management of, their key multi-country clients.

A recent example of this practice is offered by Conquest. This agency, once it had obtained Alfa Romeo's account, decided to establish an organization in Turin, where the company's headquarters are located. In this organization, composed of international personnel, there is an Italian clients account executive, an international clients account executive (who co-ordinates Alfa Romeo campaigns world-wide), a creative director and 25 further personnel. This structure is very expensive for the agency, but the size of the advertising budget undoubtedly makes the operation profitable.

Multi-country client-agency relationships can be handled more efficiently through European account departments. Specific issues can be emphasized by centralizing the contact.

From a cost point of view, the 1994 EAAA-Birgen Jensen Consultant research, 'Client-advertising agency partnerships in the New Europe', expresses some considerations regarding multi-country relationships that work better where there is a European centralized perspective. It particularly emphasizes that there is a strong case for separating the central account management function. Its costs (not only in terms of man-hours but travel as well), can thus be isolated and it is appropriate to make the client aware of how much is involved.

Together with a better management of the agency's costs in the creation and handling of a transnational campaign, considerations of its proper strategic and creative quality play a considerable role in the decision to set up a centralized structure. Indeed, these 'qualitative' considerations are the major ones: the ability to use the best-qualified human resources all over Europe, acts as a guarantee of the effectiveness of the advertising project for both the agency and the client.

Data collected in the research demonstrates the use of different criteria for the creation of a European team working on a transnational campaign:

- (a) a strategic and creative pitch is established between two or more branches of the international advertising network, with the definitive choice belonging either to the advertising network's top management or to the client;
- (b) a multi-country creative team is formed, under the supervision of one or more strategic planners belonging to the agency headquarters, or to the branch based in the client's country;
- (c) the subsidiary which has developed more know-how in the particular sector (e.g. McCann places the co-ordination of European advertising of Sagit (an ice-cream producer owned by Unilever) inside its Italian subsidiary since Italian advertising operators have the best experience in consumer behaviour and communication regarding such products);
- (d) the project is wholly managed by the European headquarters;
- (e) the project is wholly managed by the subsidiary in the client's country (e.g. Conquest and Alfa Romeo).

The approach can be more complex still: this is the case with advertisers whose campaigns are created by two or more advertising agencies – whether they belong to the same network or not. Club Med, for example, has decided to split its European advertising between two agencies, one of which covers France and Belgium, and the other which operates in the rest of Europe. The choice of two agencies makes sense, since the holiday resort company's image, marketing strategies and clients in its home market differ radically from those in other countries.

Since internationalization processes are often linked to specialization processes, an attempt was made to test the existence not only of specialization related to the management of clients, in a multi-country perspective, but also of functional specialization. That is, we verified the centralization of certain parts of the advertising added value chain in a branch rather than in another network.

The results were not significant. A local branch offers all the fundamental advertising services (except media planning and buying, not because these are centralized in a foreign partner, but because they are often decentralized). This lack of functional specialization is due mainly to the fact that a local branch is involved not only in projects related to international clients (for which a certain degree of specialization always occurs), but also in advertising campaigns for local clients needing a full, country-focused service.

One particular functional specialization was observed: this concerns the communication tools outside the advertising discipline (sales promotion, merchandizing, etc.), which are supplied by international advertising networks – here there is business specialization. Some advertising subsidiaries operate as strategic business units providing specific skills to their partners. It has to be observed that the possibility of exchanging these skills, through facilities usually called international operations, is one of the main strengths of the networks, which affiliations and strategic alliances lack.

5.4. Changes in competition and market concentration

5.4.1. Evolution of total advertising investments in the European Union

Before beginning an analysis of the evolution of advertising investment in the EU, one factor has to be mentioned. The collection of advertising statistics, which is already difficult at a national level, becomes extremely complicated when any attempt is made to aggregate them to obtain a European total, or to make a comparison between one country and another. At a pan-European level, the data are far more open to misunderstandings and misinterpretation.

Another factor that must be taken into consideration when comparing countries with one another is that advertising statistics are variable in their quality throughout European Union markets. Some countries also monitor expenditure volumes at rate card (for example, Greece, Portugal and Ireland), thereby overestimating market sizes. In other countries, surveys of media owners and advertisers allow more reliable estimates of total market expenditure.

The 1980s were a golden age for European advertising. Against a background of economic growth, technology permitted a sharp increase in the availability of commercial media. In addition, there was an increase in brand investment as more manufacturers wanted to reach the high-spending European consumer, and relatively immature markets matured. All this led to a rapid and spectacular growth in advertising. Now that growth has started to slow down, doubts are being raised as to whether advertising expenditure will be able to finance future technological developments (such as the upgrading of cable networks for digital and interactive television services).

Since 1980, Europe has been the fastest growing of the world's principal markets and is now a close second to North America. Whereas Europe has grown by a phenomenal 238% since 1980, the US and Japan have grown by 138% and 133% respectively. It was forecast that, by 1994, Europe would have represented 29% of the world advertising display market and, in terms of dollars, would have been worth 73% of the value of the North American market. Advertising growth in 1994 was expected to be high in the US, which would have resulted in an overall rate of 5.5% for North America.

In the last ten years, there has been a considerable increase in advertising investment in the European Union. This increase has been particularly important for countries like Germany, and for the young advertising markets of the Mediterranean countries (i.e. Greece, Spain and Portugal). The only exception to this trend is Finland, which initially registered an increase in advertising investment (from ECU 716 million in 1985 to ECU 1,109 million in 1989), followed by a constant reduction until 1993 (ECU 597 million). Only in 1994 was there a resumption of investment, but the level achieved (ECU 703 million) was still lower than that of 1985. The registered trends in the different countries in the last ten years show specific issues: the country with the highest investment is Germany (ECU 15,476 million in 1994), followed by the UK (ECU 9,693 million) and France (ECU 7,468 million).

The main reasons for this growth are to be found in the opening of certain national television channels to advertising. The introduction of commercial television in most European countries has had a great influence on growth. The number of national and cross-border television channels in the European Union has grown steadily, from 77 in 1988 to 85 in 1989, 92 in 1990 and 1991, 111 in 1992 and 129 in 1993. Much of the increase is due to the

appearance of satellite channels, many of which cater for special interests, and all of which are financed either through advertising or subscription (IDATE [1993]).

The evolution of the retail system, and the growth of the large retail chains, have significantly emphasized the importance of the brand value of products. As a consequence, companies' advertising needs have increased considerably.

Finally, it has to be pointed out that European integration has been the cause of a significant increase in competition within industries, with a consequent recourse to non-price competition strategies, very often based on advertising.

Returning to the analysis of the evolution of investment, in the first months of 1991 (coinciding with the Gulf War) there was a significant and generalized fall in advertising investment; a fall which continued throughout 1992. After 1992 there was a slowdown which, in a more or less grave situation, was common to all countries, and was directly correlated to the recession. During 1993, estimates of European advertising expenditure for 1993 were revised downwards, in the light of the economic conditions that continental Europe was undergoing. Despite the negative economic trend in Europe, the advertising display market weathered the storm and real growth of 1.8% was predicted for 1994.

In Germany, strong growth was predicted despite the economic conditions of the marketplace, as the private German television stations continued to show tremendous growth. In the United Kingdom, where there were signs of economic recovery, expenditure forecasts were revised upwards. In France, the implementation of the Sapin Law impacted on the market, and the press sector consequently experienced a serious decline. The Italian market not only had to cope with an economic recession, but also with the many scandals in the public administration sector that blocked a lot of advertising. Spain, without the cushion of an international event such as the Olympics or EXPO, suffered a recession after the second half of 1992 that made a significant impact on the advertising market.

As for per capita advertising investment, there has been a constant increase, especially for Austria (from ECU 63.8 in 1985 to ECU 155.8 in 1994), Belgium (from ECU 49.1 to ECU 113.2), Germany (from ECU 92.3 to ECU 190.2), Greece (from ECU 12.3 to ECU 78.3) and Portugal (from ECU 7.6 to ECU 60.1). The only exception to this trend is again Finland, which, as in the case of advertising investment, initially registered an increase in per capita advertising investment, followed by a sudden fall in 1991. Only in 1994 was there a resumption of per capita investment. These data confirm that the general investment trend, both by reference to advertising as a percentage of GDP, and by reference to per capita advertising investment.

Another point concerns an estimate of the top advertising investors by category. The sectors which absorb the greatest part of advertising investment are food and cars. Food occupies the first position and is increasing steadily, with cars in second place. It is interesting to note that a recent survey by Euromarketing of the top 100 pan-European brands, showed that cars take the biggest share of pan-European advertising, followed by toiletries and cosmetics, with food in third place, and then confectionery and laundry products.

Finally, the leading advertising investors in each Member State can be analysed. Particularly interesting is the finding that two multinational companies – Procter & Gamble and Unilever – occupy the first ten positions in almost all European countries, and they occupy the first two

positions in Austria, Belgium, Greece, the Netherlands and the UK. Even if Procter & Gamble and Unilever are the most obvious examples, there are several other companies which invest simultaneously in all European countries.

Another aspect to be underlined is that in some countries, such as Belgium, Ireland, but especially Greece, governments are among the main advertising investors. This means that there exist several young markets, which may be open to conquest by large multinational companies.

The evolution described above has to be examined in greater detail, since the situation varies from medium to medium. Looking back to 1984, and comparing that year to 1994, illustrates the degree of change that the European media landscape has experienced. The key trend in the market continues to be the growth of television.

Television, which took less than a quarter of total expenditure in 1984 (23.4%), grew to 36.4% in 1994. At current prices, television was forecast to grow a further 7.0% and 6.8% in 1994 and 1995 respectively. The supply of television has increased enormously over the last decade, mainly because most of the television industry's deregulation has occurred since 1985. In 1984, although the Italian market was totally deregulated, France only had four channels (La Cinq and M6 had yet to be launched); Germany only had three state channels; Spain had just begun to broadcast a few regional autonomous channels (there were no private stations until Christmas 1989); and private television was still illegal in the Netherlands, Denmark, Sweden and Norway. Satellite television had started. During 1984, some of the best known satellite channels were launched, e.g. The Children's Channels, Kindernet, MTV Europe and Screensport.

The press, which commanded nearly two-thirds (64%) of all expenditure in 1984, took less than half (49%) in 1994.

This varied scenario makes it clear that every European country has its own media environment. Even though television continues to increase its share everywhere, print still remains the most important advertising display medium in Europe. Radio, thanks to the increasing number of local commercial stations, receives increasing advertising expenditure. In some parts of Europe, the outdoor medium continues to be popular with numerous advertisers. In the following section each medium's situation is described more fully.

5.4.2. Breakdown of advertising investment per medium

Table 5.13 shows investment distribution between the different media in the EU. The most important media are television, newspapers and magazines. Of much less importance is the use of radio, cinema and outdoor/transport.

Among the changes occurring in media investment in the last ten years, the growth registered by television investment is particularly important. This has almost trebled, from ECU 5,522 million in 1985 to ECU 13,683 million in 1994. This happened at the expense of newspaper and magazine advertising investment – the former increasing by 70% and the latter by only 50%. Table 5.14 shows the impressive growth of television advertising spending in Europe, as a percentage of total display expenditure, for the period 1980–95.

Television advertising investment was not influenced by the recession which began in 1991/92. While investment in newspapers, magazines and outdoor/transport has been reduced since 1992, television investment has registered a constant increase.

Among the less important media, radio and outdoor/transport are almost equal (with an investment of ECU 2,369 million in the former and ECU 2,431 million in the latter), while cinema advertising investment is almost negligible (ECU 331,7 million in 1994), despite having increased by 73% since 1985. Figure 5.4 provides more evidence of this development.

The press, consisting of magazines and newspapers, is still the investment leader in almost all European countries, excluding Greece, Italy and Portugal. Television, however, is gradually becoming the first European media, thanks to the considerable development of commercial television channels. The country with the lowest newspaper investment is Portugal (ECU 101 million in 1994), while the greatest advertising investment in the press is in Germany, followed by the UK, which has a notable specialized press.

Key events, such as the trends in television, magazines and targeted newspapers, are common to almost all European countries.

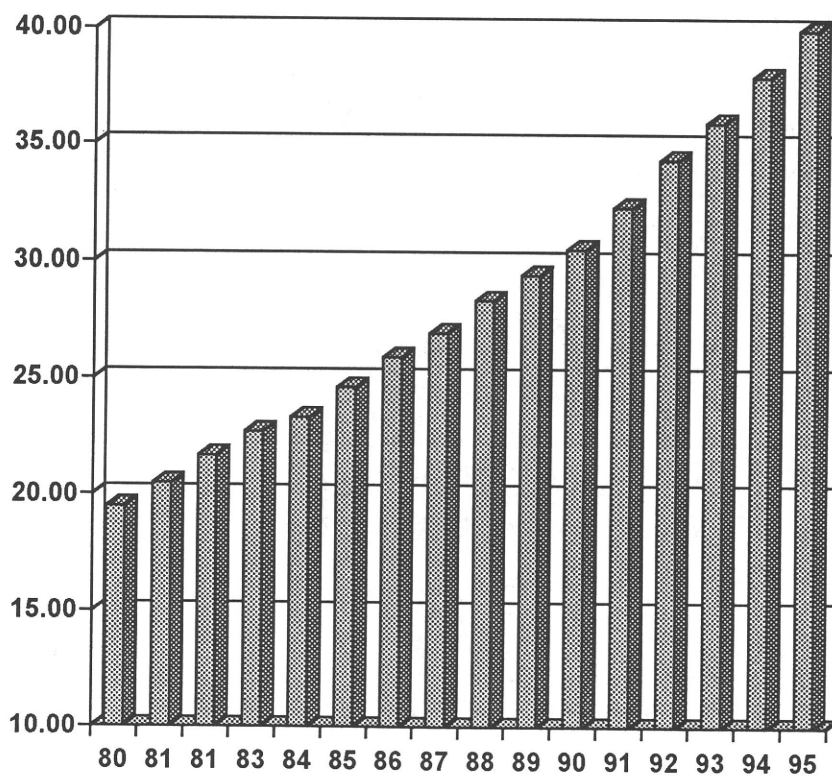
Outdoor advertising holds a good position in almost every country, and in France it accounts for more than 10% of total investment (ECU 873 million in 1994). Outdoor advertising is considered by many experts to be a potential pan-European medium. It is particularly suitable for visual, non-verbal, emotional advertising, and therefore its development is relatively independent of cultural factors, since it only depends on companies' advertising decisions and investments. There are, however, considerable differences between format types, selling habits, taxation systems and costs. In spite of these differences, some European networks are emerging (e.g. Avenir and Dauphin).

Even radio has a good position in almost all European countries, especially in Germany (ECU 655 million in 1994), France (ECU 562 million), Spain (ECU 334 million) and the UK (ECU 285 million). The country with the lowest use of this medium for advertising is Sweden (ECU 18 million).

Table 5.13. 1992 advertising expenditure by medium

	TV	Newspapers	Magazines	Radio	Cinema	Outdoor
Austria	25.5	39.8	17.5	11.4	0.5	5.8
Belgium	29.9	19.2	28.5	7.6	1.2	13.7
Denmark	24.0	50.8	19.8	2.2	0.8	2.4
Finland	23.8	54.8	12.1	5.9	0.1	3.4
France	32.7	21.0	25.5	7.4	0.7	12.7
Germany	23.9	44.8	20.6	4.8	1.2	4.6
Greece	58.9	11.6	19.9	5.3	0	4.2
Ireland	28.8	48.9	4.1	11.5	0.6	6.1
Italy	51.3	17.9	22.0	3.8	0.2	4.7
Netherlands	20.1	36.9	33.5	3.6	0.5	5.4
Portugal	43.8	17.2	21.0	7.0	0	11.0
Spain	37.9	23.4	24.6	7.7	1.5	4.9
Sweden	8.4	70.7	14.6	0	0.8	5.6
UK	41.8	31.3	19.1	2.8	0.7	4.3
Western Europe	32.6	33.5	21.6	5.0	0.8	6.3

Source: Carat.

Table 5.14. Television advertising expenditure (% of total display expenditure)

Source: Carat Media Forecast, winter 1995.

As already mentioned, cinema is almost of negligible importance as an advertising media, except for 'niche' advertising to segmented markets (especially youth). The highest investing country in 1994 was Germany, with ECU 160 million, (almost 20 times lower than television advertising investment). Cinema is in crisis all over Europe, principally due to the leadership of television, which has become a more cost-effective mass-medium. It is interesting to note that cinema is a very important medium in East European countries.

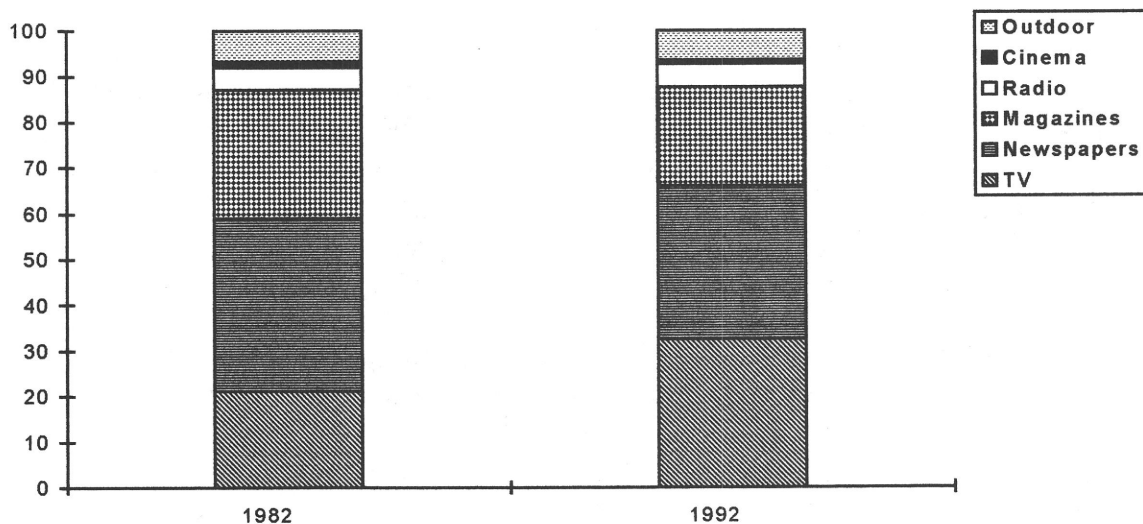
The new media (satellite, cable TV, Pay TV, Pay-per-view, etc.) are still very marginal in terms of total investment, and focus principally on youth markets. Nevertheless, their future trends must be attentively observed.

Television

In 1992, there were 75 key television channels broadcasting in western Europe. In addition, there were a little more than 700 regional and local television stations (657 of them in Italy), most of which also take advertising, and 98 channels available via satellite. 1992, however, was a year of slowdown and even recession in the advertising industries of some countries, and a time of reckoning for a number of the new commercial channels. In France La Cinq, launched only in 1986, was forced to close down with massive debts. In Spain the combined losses suffered by television channels were expected to exceed ECU 1 billion. RTL-4, in contrast, was in operating profit within a year of its launch in the Netherlands in late 1989. The two main German private television stations, Sat-I and RTL-Plus, were also operating profitably.

Figure 5.4. Western European advertising expenditure by medium

(%)



Source: Carat.

In 1993, the western European television advertiser was faced with a choice of approximately 80 key national television channels, and, at a conservative estimate, at least 900 regional and local commercial TV stations. In addition, there were 140 TV channels broadcasting on 178 satellite transponders across Europe. These were received either through DTH (direct to home) connections, cable networks or SMATV (small master antenna television) connections.

Following the terrestrial deregulation of the late 1970s and 1980s, a key issue for the 1990s will be the spread of cable and satellite technology to a wider population. Although many wild forecasts were made about the development of cable in the early 1980s, as governments presented their vision of a 'wired society', only in Germany have the cable plans laid at that time truly come to fruition.

Countries like Belgium and the Netherlands, which were cabled for geographical reasons in the 1970s, are now at virtual saturation. The cable network in Austria was also developed for geographical reasons, although the mountainous terrain places a natural limit on growth. On the other hand, countries like France, and even more the UK, have shown only minimal growth in the last ten years.

Satellite television, acknowledged as the major reason that European governments deregulated the audio-visual broadcasting industry during the 1980s, continued to grow in terms of penetration. Satellite reception, which did not exist in 1980, was available to a third of all homes in 1993. It has been estimated that by the end of the century over 50% of all TV households in western Europe will be able to receive at least one satellite channel. In eastern Europe the level of penetration is lower, an estimated 41% by the year 2000. In total, 39.2 million households in Europe were able to receive Astra channels at the end of 1992 – 25% of all television homes. By the end of the century, forecasts suggest that total penetration levels are likely to increase.

Despite the opportunity to view non-domestic television, very little occurred. Although there are notable exceptions where 'in-spill' neighbouring channels are important (Austria, Belgium, Ireland and Switzerland), across western Europe as a whole less than 3% of total reported viewing was to indigenous neighbouring TV, and only 2% to international (pan-European) TV stations. In Europe, television is still a national prerogative: in 1993, 94% of viewing was to channels with domestic programme scheduling.

Satellite and cable distribution has brought about the emergence of pay-TV channels. Recent research from Screen Finance has shown that European viewers were paying more than UK£ 2 billion a year for pay-television channels in 1993. Although there were 13 million subscriptions, pay-TV was even more of a threat to the video rental market than to the key generalist channel audience. It is worth remembering that the most successful pay-TV channel, Canal Plus, accounted for approximately 6% of adult viewing in France in 1993, although for specific demographic audiences its share increased to around 9%.

With the advent of digital broadcasting, television will be using the same digital language as computers and telephones. Most of the recent attention has been centred on video-on-demand (VOD), but interactive services go way beyond VOD. The concept is broad, and there are many categories of uses, all of which fall along the active/passive/interactive spectrum from general entertainment to telecommunications, to services such as home banking. Spectrum capacity will increase due to the digitalization of signals: superhighway networks will eventually become a reality, whether piped into the office and the home through a cable television network, down a telephone line, or via the electricity grid.

In terms of cost per thousand, there is a striking relationship between the supply of television and the price of air time. In those countries with limited supply, for example Austria, Belgium

and the Scandinavian countries, cost per thousand is higher than in countries with fewer restrictions on commercial audience availability.

Press overview

To some extent it can be argued that both the newspaper and magazine sectors in each country face a threat from television, although the two media are not perfect substitutes. The deregulation of television has boosted the amount of commercial air time available, and this has led to a diminishing share of revenue for the print media.

The magazine sector, in general the smaller of the two print media, is the one most under threat and proportionally hit harder. Magazines also have to contend with competition from the increasing number of newspaper sections competing for the same advertising revenue.

Television developments can sometimes hide the impressive increase in the quality and quantity of print media in the last few decades. Consumer magazines, which are often seen as pursuing 'niche' or specialist strategies have, in many cases, especially in France and Germany, developed through generalist and popular approaches. The best examples of this strategy can be seen in women's magazines and TV guides. In addition to the revival of general interest titles, the number of consumer magazines has multiplied everywhere, thanks to the increasing number of specialized titles. Every European market now boasts a remarkable number of titles on music, cars, hobbies, and house and home. Some of the statistics are impressive. In the past decade the UK has seen the introduction of 700 new consumer titles, and 1,680 business and professional titles. In Germany average magazine circulation is 421 million copies per publication day and 34 million newspapers per circulation day. Across western Europe alone, the number of newspapers and consumer magazines has increased because of technology, so that in 1992 the estimated number available was 6,500 newspapers and 9,546 consumer magazines. In 1993, there were 8,000 newspapers (1,900 dailies) and 41,000 magazines, of which 9,500 were consumer titles. In 1994, there were 39,000 magazines, of which 7,400 were considered to be 'key' consumer titles by advertisers. There have never been more titles for the advertiser to consider, nor a wider choice for the consumer.

As always, it is essential to point out that since such statistics differ in terms of definition between each European country, care must be taken when comparing one European country with another. However, some conclusions can be drawn, and the most obvious one is that Europe divides into two. Northern Europe, together with the Germanic language territories, is more focused on the written word than the southern, Latin countries.

This is partly the effect of history and the development of the printing industries in different countries, which has led to self-perpetuating readership behaviour, but it is also partly due to cultural influences.

Newspapers

As with radio, it is difficult to calculate precisely the total number of newspapers in western Europe. National titles are easy to count as, generally, are regional titles. The best estimates suggest that around 8,000 newspapers were regularly published in Europe's national markets at the end of 1992, divided roughly half and half between paid-for and free-distribution titles. In the great majority of cases, free newspapers are published on a weekly basis, whereas many

paid-for titles are published daily. Even here, however, comparisons between countries must be made with care; Sunday newspapers, for example, are a separate market with separate titles in the UK, but not in France.

Very few newspapers can be classed as 'mass' market circulation titles. In 1992 there were less than 200 newspapers in Europe with a circulation in excess of 1% of their national adult population. One way of comparing newspaper publishing across Europe is to look at the number of daily newspapers printed. Germany has, by far, the highest number.

Markets are structured very differently in each country. The UK, for example, is dominated by 'national' newspapers, which are available throughout the country. Continental European countries tend to be dominated by titles based on single towns or regions. Often, newspapers based around the capital come to be considered as 'national'. This is particularly the case in France. The result of this regional concentration is that circulation levels tend to be higher in the UK, and amongst the handful of national titles available elsewhere, such as *BildZeitung* and *Bild am Sonntag* in Germany and *Neue Kronenzeitung* in Austria.

These comments are drawn into sharper focus by a consideration of the percentage of adults claiming to read a newspaper on a regular basis. Very clear differences emerge between the propensities of different nationalities to read newspapers. Spain and Portugal feature as the lowest, with the three Nordic countries well out in front of everybody else. It is noticeable that the television landscapes in these groups are also very different, with Scandinavians watching the least television.

Magazines

It is perhaps ironic that by far the largest selling magazines tend to be those promoting another medium, television. Nine out of the ten top-selling magazines in western Europe are television listings magazines. All of these sell more than two million copies each week. Ten out of the top 25 titles are German, six are French, and three are British.

There are approximately 7,000 magazines in Europe, and around double that number of trade magazines. Some care needs to be taken in looking at statistics on the number of titles, which nearly always underestimate the true figures. In the Netherlands, for example, only the number of audited titles are considered, which, although undoubtedly of key importance to advertisers, omits many small-circulation magazines. Statistical differences aside, there are clearly considerable differences between countries in the relative maturity of the magazine medium, with countries like France, the UK and Belgium highly developed, and Greece less so.

Another way of examining the medium is to look at the proportion of adults claiming to read an average issue of a magazine. Here, Finland is clearly in the lead, with almost the entire population claiming to read a magazine. France and Germany are also high. On the low side are countries like Greece, Portugal and Spain.

On the multinational front, there are a large number of magazines which have started successfully in one country, and transferred part or all of their editorial concept, and often their name, to a number of other countries both inside and outside Europe. These magazines are essentially national titles in each country, with different readership profiles. The fact that many are simply licensed to different publishers in different countries, rather than being

owned by one publisher in all the countries where they are published, means that there is not always a great amount of advertising and editorial pooling. More importantly, it has made the joint selling of titles in several countries a difficult logistic undertaking. Examples of multi-national rate cards are rare as yet.

Although it is easy to identify pan-European titles that offer the same branded opportunities in several markets, such as *Marie Claire* or *Elle*, the problem becomes far more complex when it is extended to media companies. One of the difficulties is identifying cases where part-ownership enables the owner to exercise control over sales policy and price.

Most of the leading media owners have retained a high proportion of their advertising revenue within their home market, but pan-European development is underway, and will continue to develop. In 1991, the top eight magazine publishers accounted for 35% of total magazine expenditure in the top five European markets.

Radio

As an advertising medium, radio varies in importance from country to country. Apart from obvious factors like the share of total listening taken by commercial stations and the advertising minutage rules prevailing in each country, other factors important to the success of the medium include:

- (a) availability of national commercial stations;
- (b) availability of sales network able to package air time into significant geographical target areas;
- (c) capacity to segment audiences.

Throughout Europe, there is a diversity of both opportunities and restrictions, and the medium has a different degree of importance in each country. In Austria and Ireland, for example, radio accounts for over 11% of total expenditure, but in the UK it accounts for less than 3%.

It is difficult to estimate precisely the total number of radio stations in Europe. Some countries, like the UK and Germany, have sufficiently strict licensing regulations to make counting the legal stations an easy task. In other countries, notably Italy and Greece, this is not such an easy task.

In total it has been estimated that there are 8,400 radio stations in western Europe, of which 5,160 accept advertising (Sweden permitted commercial radio in 1993).

Despite the very different radio environments in each country, overall levels of listening are very similar between countries. The two exceptions are Spain, where listening levels are relatively low, and Belgium, where listening levels are relatively high.

In terms of net daily reach, there is a disparate pattern across Europe. Daily reach varies from 80% in Germany to 47% in the UK. There is no relationship between the number of radio stations in a country to either average minutes of listening or daily net reach. It is, however, important to remember that there are different audience research techniques for measuring radio audiences, so that, strictly speaking, these figures cannot be compared with each other.

Cinema

Apart from the structure and size of the medium, the key trend of the last 30 years in every European country has been its decline in popularity due to competition from television. The number of screens has virtually halved since 1960, and the number of admissions has fallen from over four billion to just over one billion, a decline of 74%. In the past decade, cinema admissions have fallen by 44%.

Cinema is not a mass market like television. According to admission statistics, the Norwegians are the most frequent cinema-goers in western Europe, with an average of three visits per person per year. This compares to an average of only one visit in Austria, Finland and the Netherlands.

Some countries, despite the massive decline in cinema-going since the 1950s, have seen a revival during the late 1980s. In the UK, for example, admissions to cinemas showing advertisements have increased steadily for the last seven years, rising from a low of 53 million in 1984 to 93 million in 1991, an increase of 72%. The development of multi-screen cinemas with additional on-site leisure facilities, has re-established the cinema as an 'entertainment experience'. Undoubtedly the 'multiplex effect' has helped to contribute to the stabilization and growth, in some countries, of cinema audiences.

Perhaps the main attraction of cinema for advertisers – apart from the environmental advantage it has over other media of showing advertising on a large screen, in the dark, without other distractions – is its youth profile.

Ultimately it is the film itself that attracts a particular audience, and the demography of cinema audiences varies greatly from film to film.

Outdoor

Outdoor advertising varies greatly according to format typologies, selling habits, taxation systems and costs. In spite of these differences, some European networks are emerging (e.g. Avenir and Dauphin). With the growing fragmentation of the broadcast media, outdoor will gradually become the only remaining true mass-medium. Consequently, European-wide outdoor campaigns should become increasingly frequent, and the market is preparing itself accordingly. There are a growing number of multinational participants, with media-buying expertise centring on European co-ordination and international specialists, and media owners on a European network.

Outdoor advertising can be divided into three main categories:

- (a) transport, made up of large-, medium- or small-sized panels in railway stations, in underground systems, and on buses or in trains;
- (b) roadside, made up of large- or middle-sized panels, either free-standing or on walls, in city streets or along roads;
- (c) street furniture, made up of small or middle panels, on bus shelters, pillars, etc.

The level of development of these categories differs within each country and from one country to another, but roadside advertising is the most significant type of outdoor display throughout Europe.

There is no European outdoor market as such at the moment, because of differences in the importance of outdoor as a medium, differences in the structure of the various markets, differences in formats, differences in the weight of the different formats, differences in quality level and differences in commercialization methods. Each national market is in fact very different, although it may offer some similarities with other European countries.

Outdoors' 'natural' market share in Europe seems to be between 3 and 5% of total media expenditure. Four countries stand out for their use of this medium: France, Belgium, Portugal and Austria. The absence of private broadcasting media in Austria creates an artificial inflation, whereas the other countries have more mature markets. Germany and the United Kingdom, as the largest media markets in Europe, invest very large volumes in the outdoor medium, but it still represents only a small share of their global media investment.

Expenditure per capita and panel density can be considered as quality indicators. Generally, when panel density corresponds with per capita spending, i.e. is proportionally lower, this is an indicator of the overall good quality of the media. It means that fewer, more visible panels are sold at higher prices. Italy should be seen as a case apart, because only the legal panels are taken into consideration. In Germany and Austria, quantity still rules over quality: high densities coupled with proportionally low volumes of investment and low rents.

5.4.3. Increase in competition between advertising agencies

Over the last 15 years, and particularly during the early 1990s, competition in the advertising sector has increased greatly all over Europe due to two factors:

- (a) as a result of the recession, companies decided to redefine their investment policies. This rationalization led to a consistent reduction in communication investment, especially in advertising;
- (b) the increasing European integration of the advertising industry, principally due to the increased internationalization of marketing and the use of transnational advertising strategies, led to increased competition between local agencies and international networks, with both keen to handle international budgets. This is especially the case of countries like Sweden and Greece where the advertising sector has had a local profile until recently.

The research examined the terms of this competition from an 'average' European point of view, but also from a country-to-country perspective. In both the approaches, one clear result has emerged: the use of reduced remuneration as the first form of competition.

The tendency of this form of competition to cross the advertising industry – sometimes very aggressively – is due to its typical sectoral feature. The advertising industry is a service sector without much 'differentiation' between competitive behaviours. The field research indicated that, generally speaking, operators have been used to wielding a lot of competitive weapons, with no unique, specific characteristics (as explained in Section 5.1, real competitive differentiation is related not to the market itself, but to single clients, which are very important both in terms of their numbers and their unique communication needs).

Price competition has predominated, and still predominates, over other communication tools, requiring reorganizations of the value chain. Only the most pro-active agencies have been able to redefine their supply of services, through the creation of new ones and the

improvement of existing ones. In most cases, especially among small- and medium-sized agencies, a strengthening of creative skills has taken place.

The intensity of price competition – although considerable everywhere – is particularly great in some countries in which it has also become a type of unfair competition. The principal leading official rules for advertising service remuneration have been broken, and dumping policies have begun to spread. The need for new rules, no matter what their source (local or European) or their risks on agencies' long-term profits, emerged during the field research.

After stressing the role of price competition in the functioning of the advertising sector, the research permits a more detailed approach. An attempt was made to understand the changes in agency remuneration schemes that have supported this price trend, and also the further changes occurring in the global advertising value chain.

5.4.4. Overview of the advertising sector's concentration

Table 5.15 shows the evolution of concentration (C5 in terms of billing) of the advertising agencies' sector in each Member State. These figures have been obtained by dividing the sum of investments managed by the first five advertising agencies, by the total sum of investments in advertising in the Member State. The denominator of this ratio has not been based on advertising investments managed by advertising agencies alone, but also on total investments, i.e. this figure includes advertising investments managed by media centres and other media operators. This limit is due to the fact that correct figures for overall advertising agencies' billings were not available. If the correct values were available, the level of concentration would be higher.

External and internal reorganizations have had significant effects on the degree of sectoral concentration degree both at the local and European levels. Concentration degree increased slightly across the European Union from 1988 to 1994. In the most important advertising markets, there were slight increases in the UK, Italy and Germany, and a considerable increase in France (from 46.90% to 59.76%) and Portugal. Even Greece and Denmark had notable increases, while some countries had slight decreases, such as Spain and the Netherlands.

Degrees of concentration differ between the different countries. France and Greece have the highest levels of concentration – in these countries the first five agencies account for almost 60% of advertising investments – while Germany is the only country to show a value (15.29%) significantly below the European average.

This increasing concentration is closely related to the increasing opportunity for economies of scale and scope achievable at the European level. Academics and practitioners have pointed out that, with increasing economies of scale and scope, concentration increases as well. Data cannot be provided for the period before 1988. As mentioned (see Section 5.1 above), the highest intensity of M&As was reached in the 1970s and 1980s, while the period from 1988 to 1994 was a period of 'meldings' (minor acquisitions) and strategic non-equity agreements. For this reason it is possible to say that:

- (a) the data provided reflect the attenuation of a process of considerable concentration that began much earlier than 1988;

- (b) the increases registered between 1988 and 1994 are considerably underestimated since they do not take into account 'meldings' and strategic alliances that have significant effects on agencies' market power.

Table 5.15. C5 for advertising agencies in European Union countries

Country	1988	1989	1990	1991	1992	1993	1994
Austria	28.65	25.09	29.23	30.56	29.89	28.05	29.48
Belgium	40.15	45.09	50.80	45.25	41.35	40.28	37.99
Denmark	36.32	37.81	43.24	55.11	50.71	51.34	50.83
Finland	30.30	25.02	41.96	34.66	38.88	34.11	32.68
France	46.90	40.73	55.01	58.25	59.82	62.27	59.76
Germany	14.38	13.07	15.26	14.04	15.12	14.63	15.29
Greece	48.27	44.94	46.40	60.25	58.05	63.09	59.16
Ireland	31.09	39.34	39.86	34.44	n.a.	32.30	29.21
Italy	27.25	28.01	30.82	31.47	n.a.	30.72	27.48
Netherlands	40.31	35.54	39.83	40.29	42.81	36.65	36.07
Portugal	67.17	65.78	69.89	60.89	61.73	56.94	44.86
Spain	28.11	28.24	34.79	29.34	28.99	25.76	25.50
Sweden	21.68	24.82	26.05	27.74	29.60	30.88	25.36
UK	28.68	28.16	35.81	25.47	34.20	35.11	32.21
Total EUR-15							24.97

Source: Advertising Age.

The concept of concentration needs a more detailed explanation. Besides considering concentration only in terms of leading competitors' market shares, it should be considered in terms of the number of operators as well.

Tables 5.16 and 5.17 show how advertising agencies perceive the evolution of the number of operators in their industry (they were asked how the structure of the advertising agency business in their own country had changed since 1990).

47% of the advertising agencies stated that the number of small advertising agencies had increased in the last ten years (Table 5.16). Disaggregating this figure by size of advertising agency provides further confirmation of this tendency. 67% of small advertising agencies believed that their own number had increased (Table 5.17).

Regarding medium-sized agencies, 48% of all advertising agencies stated that their number had decreased (Table 5.16). Once again, most medium-sized agencies, i.e. 62% of them, confirmed this trend (Table 5.17).

The same reasoning can be applied to large advertising agencies. The field research showed that 61% of advertising agencies believed that the number of large advertising agencies had remained the same during the past ten years (Table 5.16), and 78% of large advertising agencies confirmed this perception (Table 5.17).

Table 5.16. Perceived polarization in the EU advertising sector (%)

	Increased	Decreased	Same
Small (<16 employees)	47	30	23
Medium (16–49 employees)	23	48	29
Large (>49 employees)	16	23	61

Source: Bocconi University.

Table 5.17. Perceived polarization in the EU advertising sector by respondent size (%)

Respondent's size	Increase			Decreased			Same		
	<i>Small</i>	<i>Medium</i>	<i>Large</i>	<i>Small</i>	<i>Medium</i>	<i>Large</i>	<i>Small</i>	<i>Medium</i>	<i>Large</i>
Small (<16 employees)	67	11	22						
Medium (6 – 49 employees)				31	62	8			
Large (>49 employees)							22	0	78

Source: Bocconi University.

Table 5.18. Perceived level of polarization of advertising agencies (%) (Scale: 1. Strongly disagree, 5. Strongly agree.)

	1	2	3	4	5
General tendency	0	0	8	38	54
Small advertising agencies	0	0	0	33	67
Medium advertising agencies	0	0	14	36	50
Large advertising agencies	0	0	8	46	46

Source: Bocconi University.

In the last ten years sector polarization has increased markedly. On a 1–5 scale through which agencies expressed their agreement/disagreement (from 1 = 'I strongly disagree' to 5 = 'I strongly agree'), it can be seen (Table 5.18) that 54% of all advertising agencies agreed that the advertising business will be polarised between very large agencies which are able to operate at the international level, and small, highly skilled and creative 'niche' agencies. This belief is even stronger among small- and medium-sized advertising agencies.

The competitive dynamics following European integration have progressively rewarded both the largest and the smallest organizations. The former have attracted the major advertising budgets thanks to their capacity to manage them across Europe in a very efficient and effective way. The latter have followed a specialization strategy and they have bettered their structural flexibility. By doing this, they do not seem to have relinquished the opportunity to operate abroad by being involved in European networks.

The advertising agencies that have suffered most from the evolution of companies' communication strategies and other communication operators' services have been the middle-sized ones. These usually have neither the potentialities of an international network nor the flexibility for effective operation in a very dynamic environment.

Table 5.19 shows the C5 index calculated for advertising investors in 1993 and 1994 in Member States (the limit of the earlier Table 5.8 is also valid in this case). As can be seen, the European C5 for investors (37.14) is much greater than the value for agencies (24.97). This fact confirms the agencies' weakness *vis-à-vis* spenders. Nevertheless, in some countries such as France, Greece, Denmark and the Netherlands, agencies seem to have attained significant market power, since their C5 is superior to the companies' C5.

Table 5.19. C5 for advertising investors in European countries

Country	1993	1994
Austria	53.91	74.24
Belgium	45.28	47.16
Denmark	27.12	32.55
Finland	n.a.	54.53
France	61.55	56.69
Germany	21.83	27.15
Greece	63.58	58.06
Ireland	42.76	36.01
Italy	53.06	58.66
Netherlands	32.81	35.53
Portugal	52.19	54.23
Spain	33.75	37.12
Sweden	48.17	51.06
UK	41.43	41.17
Total EUR-15	36.11	37.14

Source: EAAA.

5.5. Productivity and competitiveness

5.5.1. Productivity increase in a labour-intensive sector

The increased competition following European integration has led agencies to an internal reorganization aimed at increasing the productivity of the resources employed in the value chain. Productivity growth has been a necessary strategic response to the threats to profitability of severe price competition.

Although the general results of this effort have been remarkable, the fact that the advertising industry is a labour-intensive service sector cannot be disregarded. As economic literature has made clear, and the present research has confirmed, productivity increases in sectors where the main inputs consist of labour usually occur relatively slowly. Further, this structural characteristic – which is common to most service sectors – is somewhat emphasized in the advertising services business where human creativity and professional services play a fundamental role.

The greatest increase in productivity has been achieved through an intensive externalization process. Many fixed posts were cut and substituted by work done by freelancers. This was necessary for the agencies to rationalize their cost structure and enhance their flexibility in an environment where demand forecasts are more and more uncertain. Additionally, there has been an increase in the purchase of external services. Activities once carried on within the agencies are now bought from external suppliers (media buying, marketing information).

The productivity of the 'internal factors' has not increased significantly, as a result of rationalization. Interviewees stated, however, that there had been some improvements in administration, due to the adoption of new technologies and information systems.

The research was more concerned with the possible productivity increases occurring in agencies' core departments, particularly the creative ones. Respondents agreed that the use of new technologies had allowed for improvement in the overall efficiency of creative departments. However, clients' increasing requirements in terms of quality (creative output

and reduction of average time for the creation of a campaign), have made it very difficult for the agencies to translate efficiency improvements into cost savings.

5.5.2. Evaluation of agencies' performance

At present, there is no operational definition of agency performance. After analysis of the research related to agency performance, it can be argued that creativity is a far more critical factor in the agency-client relationship than any other single factor.

Performance quality is a complex issue to evaluate, as the data collected from both interviews with companies and interviews with national advertising agency associations, confirm. The interviewees' evaluations have to be carefully weighted on the basis of both their ability to evaluate quality and the different nature of their activities in the value-added chain. Two factors have to be considered. The first is that, since the majority of the interviews were with senior and top managers with responsibility and experience, it could be assumed that they were reasonably skilled in evaluating advertising services quality. The second is that, more than being interested in a quality evaluation in itself, there was greater interest in the evolution of quality over time.

The results of the field research show, in brief, that the average perception is of a slight improvement in all advertising functions over the last ten years, particularly for the period 1990-95. The following table shows the average evaluations on a scale from -2 (considerable deterioration) to +2 (considerable improvement).

Table 5.20. Changes in the advertising agencies' quality according to advertisers

Activities	1985-90	1990-95
Strategy	0.40 (25)	0.56 (39)
Account	0.20 (25)	0.41 (39)
Creative	0.40 (25)	0.51 (39)
Media planning	0.21 (19)	0.88 (34)
Media buying	0.23 (21)	0.69 (25)
Administration	0.13 (23)	0.36 (38)
Production	0.09 (22)	0.57 (38)

N.B: Number of reliable answers in parentheses.

Source: Bocconi University.

This positive perception is widespread among almost all the companies interviewed, and is especially strong for media planning and buying activities, thanks to greater specialization (media centres, media clubs, etc.).

In a significant number of cases there is also some improvement in the creative and strategic planning functions (these are both often considered as activities with a single outcome). It has to be emphasized that, especially in the strategic area, companies have increased their competencies in recent years – sometimes through the creation of internal structures; and in

production. The evaluations for accounts and administration were lower (the latter not an important aspect of overall judgement, according to the majority of advertisers).

Very positive opinions were recorded about advertising agencies' capability/flexibility to follow clients in their internationalization strategies.

These perceptions of the companies interviewed should be interpreted from three important perspectives:

- (a) During the 1990s, advertisers' average budgets allocated throughout the agencies have reduced markedly. In order to manage them profitably, agencies have often been obliged to reduce the quantity and quality of both the tangible and intangible resources at clients' disposal. Further, companies have begun to give their agencies shorter periods to prepare advertising campaigns: this fact has sometimes forced agencies to speed up their internal activities at the cost of a certain frustration of their potential (Table 5.21).
- (b) In the last ten years companies have made a careful re-examination of the strategies adopted in their whole value-added chain, marketing communications included. There have been three consequences of this new approach:
 - (i) a better capacity to evaluate advertising agencies' services;
 - (ii) a greater involvement in the advertising campaign planning activity;
 - (iii) a general growth of the advertisers' needs concerning advertising campaign effectiveness (sometimes these needs disregard the fact that advertising campaigns show most of their effects in the long term, and ask for too immediate outcomes).
- (c) Evaluations refer to years in which companies obtained lower margins following increased competition in most industries. This negative point of view could have been extended to the advertising campaigns' effects.

Table 5.21. Time to produce a typical advertising campaign over the last ten years according to advertising agencies

Time	% advertising agencies
Much less	28
Less	42
Same	3
More	22
Much more	6

Source: Bocconi University.

As already stated, the general quality of advertising services has improved slightly in the last five years, following the period of rationalization (this is confirmed by the advertising agencies themselves, Tables 5.22 and 5.23 using a 1 to 5 scale from 'I strongly disagree' to 'I strongly agree'). This confirms the research hypothesis that the agencies faced the crisis of the early 1990s by not only reducing costs and prices, but also by quality improvements. In the companies' opinions these recent improvements can be located in the agencies' participation in companies' communication problems, in increasing professional skills, and, even more, in the creativity and originality of advertising campaigns. The evaluation of the current average degree of creativity is a positive note, since information collected in the company sample shows that creative potential is what is mostly asked for.

Table 5.22. Evaluation of the advertising agencies' services according to themselves
(Scale: 1. Strongly disagree, 5. Strongly agree)

'The services have improved over the last five years'	1	2	3	4	5
% of respondents	3	15	13	46	23

Source: Bocconi University.

Table 5.23. Value for money for the advertisers according to the advertising agencies

Value for money	% advertising agencies
Much less	0
Less	8
Same	26
More	56
Much more	10

Source: Bocconi University.

5.5.3. The profound transformation of the advertising agencies sector: new value-added services after the confusion

European integration, and the recession of the early 1990s, have resulted in a profoundly transformed industry: concentration, competition, and specialization have been strengthened. Advertising agencies suffered a degree of disorientation during that period. There was considerable debate among practitioners over advertising agencies' very reason for being. Among academics, too, there was no common opinion about the factors determining an agency's competitive success.

The increased importance of communication tools, which were subordinated to advertising ten years ago, has received considerable attention in marketing literature, and from companies and the most dynamic communication operators. The growing use of these new tools has stimulated new ways of evaluating efficiency/effectiveness and price/cost issues.

The unexpected cross-sector competition has weakened the advertising agencies' market position. Nowadays there is an impressive array of sophisticated below-the-line techniques, from special promotions, competitions and points of sale, to direct mail (Table 5.24). Nor will the increase in below-the-line instruments come to an end in the near future. The most qualified practitioners think that the old distinction between above- and below-the-line activities will make no sense in a few years. Alastair Timms, Director of Marketing Communications at Lintas, says: 'In many ways this distinction is redundant. Many advertisers will tell you that the future is about re-accessing consumers. And conventional media are not as controllable and as easy to target as they were. Advertisers want to know who their consumers are, and how to target them effectively and efficiently. Direct contact with consumers and interactivity are not new. The new technologies are just going to make it cheaper and more efficient.'

Other sources of change have their origin inside the advertising value system. The birth of new participants such as the media buyers – whose market power is still increasing because of

their growing competence and current negotiating practices for media spaces/times (i.e. discounts) has posed a threat to two strategic activities of advertising agencies. The advertising agencies' 'weak link' position has been further underlined: both companies and media centres have begun to develop their own communication strategy know-how, and free-lancers have begun to compete with agencies in the creative function, etc.

Table 5.24. Expenditure on direct marketing in 1993 (US\$ million)

Country	Mailings	Direct advertising	Telemarketing and others	Total	US\$ per head	% of total *
Germany	7,483	4,623	2,246	14,352	178	36.5
France	5,237	979	1,018	7,235	125	18
UK	1,815	2,533	1,005	5,354	91	13.6
Netherlands	1,802	600	1,436	3,839	252	9.7
Italy	1,593	1,619	248	3,460	61	8.9
Spain	666	1,632	104	2,403	61	6.1
Denmark	875	130	117	1,123	214	2.8
Belgium and Luxembourg	744	261	65	1,070	106	2.7
Greece	26	130	13	169	17	0.5
Portugal	26	104	13	143	14	0.4
Ireland	91	39	13	143	40	0.4
Total	20,360	12,655	6,281	39,297	114	
% of total	52%	32%	16%			100%

Source: FEDIM/EDMA compilation of National Direct Marketing Association data.

Competition in the advertising agency sector has also grown in complexity. Until 1980 there was a common view of the competitive forms of this business, characterized by the traditional subdivisions between large and small agencies, and between national and international agencies, as each of these qualifications expressed a series of competitive behaviours consistent with the characteristics of each agency. Since 1980 much has changed. As a result there has been an explosion of competitive behaviour, much of it unconnected with agency skills and 'know-how', and separate from the market and business opportunities. This has led to each agency beginning to compete with all the offer variables, so that the rivalry between agencies has grown considerably. One of the features of the current situation is the large armoury of weapons now used. Advertising agencies compete on 'creativity', 'complete service', 'quality of the service offered', etc.

Such a varied and diverse environment has contributed to client confusion. The choices between agencies have become very hard. Thus, there has been a marked increase in the number of marketing match-makers. These consultants help advertisers to select their agencies. Many of them are also increasingly involved in providing strategic advice to advertisers, such as reviewing aspects of their marketing plan, or auditing their media-buying arrangements (in the UK alone, media auditors are estimated to review over half total TV advertising expenditure).

This trend further fragments the advertising added value chain: new actors appear, either to perform activities once performed by the advertising agencies themselves, or to work as 'middlemen'.

It must also be pointed out that the real effects of internal and external reorganization will only be clearly understood in the future: such profound transformations inevitably have long-term consequences.

The field analysis revealed two major trends in service innovation/development following European integration:

- (a) Agencies belonging to European and international networks have spread their activities' horizon towards other communication tools in order to create synergies between different know-hows and structures. The leading European group, WWP Group, for instance, acquired Einson Freeman agency, specialized in sales promotion, two PR agencies (Hill & Knowlton and Ogilvy, and Adams & Rinehart), and three market research companies (Research International, MRB and Millward Brown).
- (b) Both the small and large agencies have pursued specialization strategies. While the former have adopted – by specializing – a 'one-way' identity, the latter have specialized only some parts of their wide organizations. Numerous divisions have been created: Saatchi & Saatchi's 'Kid Connection', Bates' pharmaceuticals division 'Bates Medical', 'McCann Healthcare' division, BBDO Worldwide's 'Corbett Health Connect', etc. These international divisions operate in markets with specific characteristics in terms of either consumer specificities or the profound impact of the legislative framework on advertising.

5.6. The evolution of advertising agencies' remuneration

5.6.1. Price competition: three leading trends

In the last ten years, competition between European advertising agencies has been increasingly played out at the price level.

Several changes have occurred, and some of the basic principles of the industry's functioning have been questioned:

- (a) the principle of paying commission;
- (b) the existence of a standard rate.

The data collection and the comparison with previous research outcomes emphasizes some major phenomena:

- (a) the percentage decline in fixed commission;
- (b) the increasing adoption of alternative systems of remuneration (fees and 'hybrid' schemes);
- (c) the increasing use of incentive schemes.

The first two phenomena have brought about a general reduction of remuneration levels. Other trends have emerged, however, which favour advertising agencies, in particular the search for a better way of remunerating agencies. Even though this search is still overshadowed by the problem of remuneration cuts, it provides the basis for a better future. It is not by chance that a third major factor emerged in the survey.

5.6.2. The percentage decline in fixed commission

Historically, the remuneration of advertising services is 15% of gross media billings (production and other outside purchases which are billable are charged at cost plus 17.65%).

Even though commission still remains the most common form of remuneration (especially between large companies and large agency networks), there is a growing tendency to reduce its level. When commission deviates from 15%, this is generally due to a decision to reduce it by subtraction. The reference point is full commission, and percentage points are deducted on the basis of services not required; or percentage points are subtracted on the assumption that the billing level in question justifies a lower rate because of its size.

An alternative to the above process is the adoption of a sliding scale commission, based on the assumption that the level of agency remuneration should decline as a percentage of expenditure, as the latter increases. Certain costs do not depend on the volume of media activity and can therefore be covered by a given rate of commission on billings up to a certain level. When billings grow, this commission rate can be lowered as only the variable costs associated with managing the marginal advertising volume have to be covered.

Internationally, sliding scales are usually related to the advertiser's total volume in a given market, and only exceptionally are they related to the accumulated expenditure in several countries. Nor are they frequently related to the expenditure of individual brands, though this would be one way of matching their impact to workload variations more closely.

General practice favours the application of a declining percentage on successive tranches of expenditure, rather than the reduction of the overall percentage, when predetermined levels are reached. The latter would reduce agency income for a greater expenditure if a level were reached but only marginally exceeded.

The decline of advertising agency margins has also come about because of an increase in the number of free services supplied.

The research shows that the supply of free services particularly affects the following activities:

- (a) advertising research (i.e. copy testing);
- (b) media research (agency's own or by agency subscription to outside services);
- (c) new product concepts and positioning;
- (d) sales promotion and trade marketing ideas;
- (e) monitoring of competitive advertising activity via subscription to outside services.

5.6.3. The increasing adoption of fee-based remuneration

The current complexity of remuneration systems can be explained not only in terms of a greater or lesser reduction in commission percentages, but also in terms of the increasing use of fees, either as the only form of remuneration or in conjunction with commissions.

The use of fees as the only form of remuneration generally means fixed fees, project fees, and fees based on time worked.

Fixed fees are defined as fees which are agreed in advance to cover a period of activity, usually a year. They are calculated on the basis of the marketing plan for the same period, and

are designed to reflect the likely workload of the agency. They differ from commission in three fundamental ways:

- (a) workload is not assumed to be proportional to the volume of media activity;
- (b) they are fixed, and do not vary according to whether the plan is implemented in full or not;
- (c) they are cost-based.

An alternative to fixed fees are fees determined on an individual project basis. The opportunity to use this form of remuneration is reduced because advertisers tend to require continuing and overlapping multi-faceted services. Thus, it is only important for the provision of *ad hoc* supplementary services (or for specialist agencies in fields such as sales promotion).

Fees based on actual time worked have the same fundamental approach as fixed fees, although there are some important differences. The fact that there is no advance commitment to a figure for the agency's income has two consequences:

- (a) neither the client nor the agency knows in advance the size of the final remuneration;
- (b) the agency has no direct financial incentive to run its business efficiently. Indeed, the more time it spends on a given task, the greater its income will be.

The case of the Italian advertising market demonstrates the extent to which the fees described above are being used. According to the Ballester-Makno annual report, in the early 1990s there was a notable decrease in commission payments and an increase in fixed annual fees (26%), and fixed fees for specific projects (18%; see Table 5.25).

In the commission plus fee system, commission is generally the dominant component of the agency's remuneration, while fees are used as a supplement to cover specific areas of service. It must be noted that supplementary fees are used to cover costs connected with international co-ordination. In other cases, fees may be used to compensate agencies for activities beyond those of mainstream advertising (i.e. strategic advice).

As the last EAAA report on the client-advertising agency partnerships in Europe explains, the combination of commissions and fees has the following advantages:

- (a) It allows agencies and advertisers to use their discretion as to which services are best remunerated by each method. They can retain the simplicity and motivational benefits of commission; and, at the same time services with pre-determinable costs can be isolated and rewarded with exact fairness.
- (b) The agency can be clearly and directly motivated to cover as many of the advertiser's communication needs as it is equipped to do, without any potential loss of income through the diversion of media funds.
- (c) Activities with a predictable man-hour component will lend themselves best to fee payments (i.e. inside the account co-ordination group).
- (d) Commission is best applied to those functions which are unpredictable (i.e. the generation of creative ideas).

Table 5.25. Advertising services' rewards in Italy

Remuneration	1990-91 (%)	1992-93 (%)	1994-95 (%)
Commission	54	49	37
Commission with guaranteed minimum	4	5	4
Commission with scaled discounts	4	7	3
Fixed fee for project	14	11	18
Fixed annual fee	14	18	26
Commission or fee plus outcome related incentives	3	3	3
Others	7	7	9

Source: Makno Ricerca S.r.l., Milan 1995.

5.6.4. The increasing use of incentive schemes

An increasing use of incentive schemes has been emphasized throughout Europe (with certain differences according to size, sector and country in which advertisers operate; see above). This trend represents a first attempt to break out of the vicious downward spiral in which remuneration appears to have become trapped. If advertisers are successful beyond their expectations, they will be much readier to commit money to their agencies. At the same time, incentives can both increase advertising agencies' motivation and reinforce the sense of partnership with their clients. However, incentive remuneration schemes cannot be perfectly applied (the difficulties in evaluating the effective quality of services is one of the major issues of the sector): they can obscure 'traps' especially when the link between advertising services and sales, adopted for the quantification of the incentive, is too crude and short-term oriented.

The criteria used to determine incentives can be divided into two categories: those which are 'subjective' and those which are 'objective' in approach. Among the first are included:

- (a) general agency evaluation;
- (b) evaluation of specific areas of performance.

Among the 'objective' criteria the following are included:

- (a) achievement of sales target;
- (b) achievement of specific communication targets;
- (c) advertising test scores;
- (d) creative awards.

The research confirmed that, besides the two 'subjective' criteria, the 'objective' schemes usually focused on the achievement of sales targets and specific communication targets (as measured by impact scores, awareness and attitude tracking data).

Generally speaking, the two most frequent criteria are 'general agency evaluation' and 'sales targets'. Further, in a considerable number of cases more than one criterion was used.

The breakdown of the advertisers' data confirms that the companies adopting incentive schemes to remunerate advertising services tend to be large and engaged in FMCG.

The results can be interpreted as follows:

- (a) Large advertisers are more likely than small ones to be looking for new elements in agency remuneration. The total sums of money involved generate the possibility of

considerable incentives, without being too large as a proportion of the agency's total income.

- (b) FMCG companies are likely to see a more direct link between advertising and sales, given the higher ratio of the former to the latter as compared with durables.

Further, country of origin seems to play a certain role: even though the adoption of incentive schemes is widespread throughout Europe, their use is especially noticeable in the UK. This may be linked to the greater development of the UK advertising industry: UK advertisers have a stronger belief in the effect of advertising, and there is a longer and closer knit tradition of agency-client relationships.

5.6.5. The remuneration of other communication services

The complexity of the remuneration scenario is even greater when the other communication tools used directly or indirectly by advertising agencies or specialized companies are taken into account (remuneration methods depend on the type of activity, and are not influenced by the ownership of the companies selected). Each activity has developed a method of remuneration most appropriate to it:

- (a) Corporate or other design projects are generally remunerated on the basis of project fees agreed in advance. Mock-ups in excess of the number included in the initial quotation, and requested by the client, are billed at cost plus a mark-up, or at a predetermined rate per item.
- (b) Sales promotion is generally billed on a project basis. Margins on anticipated costs allow for the amount of speculative work which is required before an assignment is awarded (it is thus normal for margins of 30% or more to be charged).
- (c) Direct mailing services tend to be part of a lasting client-agency relationship. Given the need for continuing consultancy independently of particular programmes, it is common practice to charge an annual retainer plus a mark-up on each programme that the agency runs.
- (d) Public relations follows a similar pattern.
- (e) Event marketing and sponsorship is charged on a project basis.

5.6.6. Remuneration in international client-agency relationships

The increasing trend towards multi-country agency-advertiser relationships has emphasized the problems of agency remuneration. The shift towards more complex forms of payment – in which the fee plays a more important role – depends to a great extent on the growing use of transnational campaigns.

The use of simple commission appears inadequate and too expensive for advertisers, when an advertising service is largely centralized and advertising subsidiary agencies' work loses a great part of its added value. Philips, for instance, in its Philishave advertising, pays an agreed fee to its agency (DMB&B) for the development of the international campaign, and then charges each of the national Philips organizations a part of this fee depending on its budget. The national subsidiaries, in turn, agree the terms on which the agency will work with the local DMB&B offices, taking into account that the principal task of creating the advertising has been executed and paid for centrally.

Among the commonest forms of remunerating advertising services supplied by a network of agencies (whether these have linked equity interests or not) across more than one country are:

- (a) Each local agency is paid by commission, while the agency driving the entire advertising project receives from the client a fee for the basic creation and handling of the campaign.
- (b) Each local agency is paid by commission, while no fee is paid by the client to the project leader agency; in this case the leader agency receives a 'split commission' from its partner agencies (usually a third of the commission they received from the advertiser).

The third practice is fee-based but is uncommon.

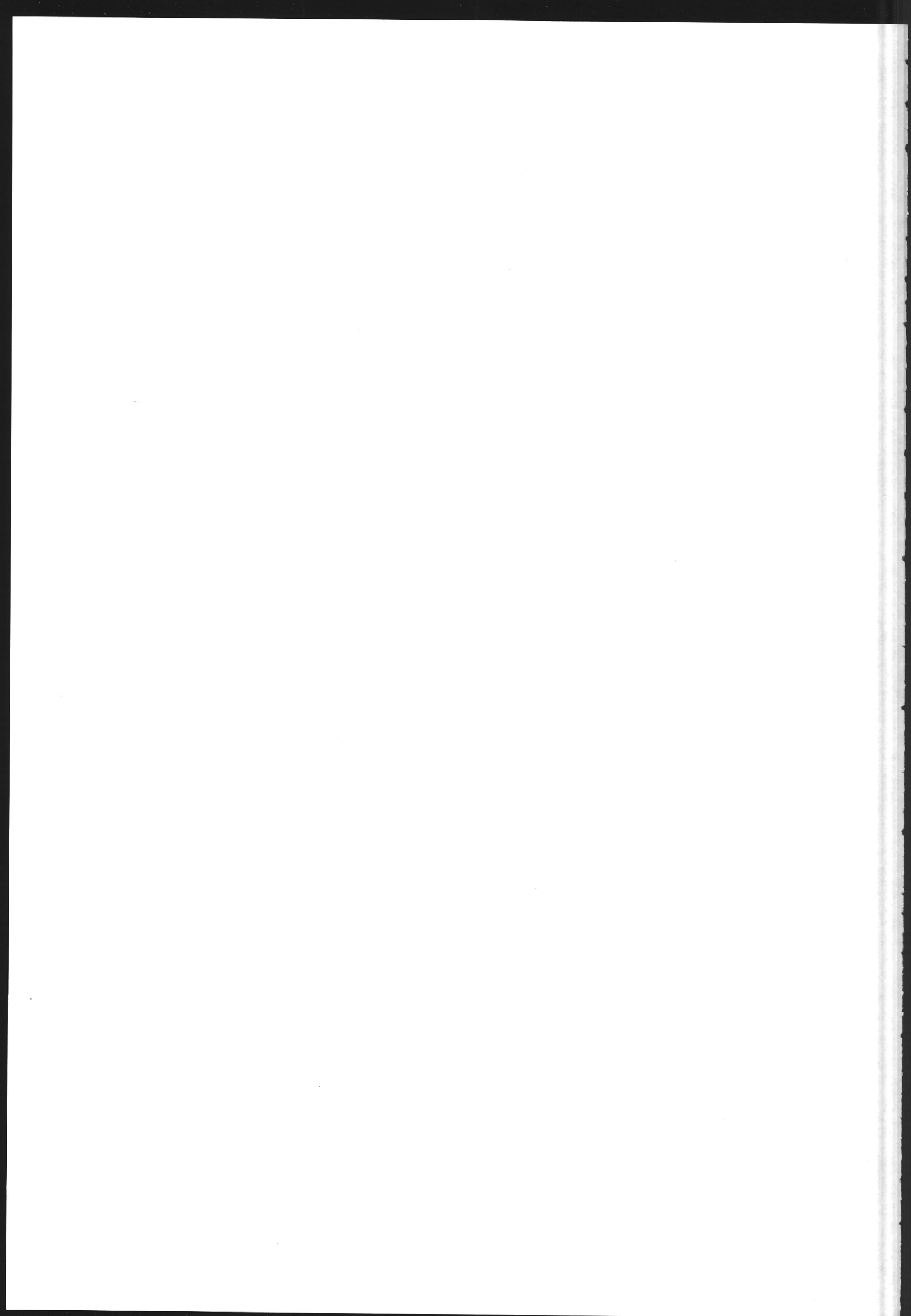
The survey does not support the idea that international clients are more profitable for agencies than local ones. Other things being equal (if the tangible and intangible resources used are the same in the international advertising structure for both local or international clients), international clients do not supply higher incomes.

Further, when the overall remuneration from international clients is above average, some supplementary costs tend to increase. The interviewees underlined cost increases related to the greater complexity of the central management of the business. The greater complexity comes from three sources:

- (a) inputs have to be gathered from a range of markets and incorporated into a single strategy, and developing a strategy is harder;
- (b) both the approval procedure and the production process not only involve more people, but involve people with different and perhaps conflicting interests;
- (c) managing the frustrations of local clients (and agencies) who generally feel that their interests are being sacrificed.

This complexity is overlaid by the continuing need for intensive communication, most of which requires expensive face-to-face contacts (often entirely at the agencies' expense).

The increasing use of transnational advertising campaigns, and the increasing integration of the European advertising sector, have contributed to spread price-competition dynamics very rapidly. Moreover, in our opinion this trend is pushing towards price alignment across local advertising business (a proper quantification was not possible: advertising agencies tend to conceal most of the detailed data relating to the remuneration coming from different clients operating in different countries).



6. Business strategy

6.1. Investments to compete at the European level and barriers to entry

The growing need for companies to establish cross-border advertising campaigns is accepted by the advertising agencies who strive to expand their activities internationally through direct and indirect investments.

In the last ten years, the investments required for advertising agencies to operate competitively have increased significantly. This has been very significant, especially for those agencies which have extended or reinforced their activities at the European level. While small and medium-sized agencies have often used strategic agreements, the largest ones have been involved in equity investment strategies. Such investments have usually been very heavy, but the resulting organizations have become increasingly flexible.

Through these investments, advertising agencies have been able to enter new European markets. To do so, they have had to overcome the barriers to entry protecting local sectors. Obstacles to agencies in constituting cross-border agreements have never been significant, and moreover, have been further reduced by regulation introduced to facilitate free establishment across the EU. While barriers deriving from local government regulations have created troubles, barriers to entry have mainly resulted from the existence of sunk costs (fixed costs associated with irreversible investments).

As academics have pointed out, advertising networks tend to be 'transnational' organizations (Banerjee [1994]). While 'international' organizations consider their operations abroad as supplementary to a central domestic corporation, and while 'multinational' organizations regard operations abroad as a portfolio of independent businesses, 'transnational' organizations are characterised by 'a complex process of co-ordination and co-operation in an environment of shared decision-making' (Bartlett and Ghoshal [1991]).

Services industries typically incur fixed costs in two types of asset: tangible/material (typically buildings and equipment) and intangible/immaterial (typically reputation).

In the advertising services sector fixed tangible costs are not significant. Reputation, however, – in which services have to invest heavily because of widespread asymmetric information problems – is a considerable barrier to entry.

It is a common practice to surmount the reputation-based entry barrier through recourse to partnerships with well-established local agencies. However, this is sometimes not effective in the advertising industry, because organizational and cultural differences related to working methods in the agencies in the various countries can impede the entry of foreign operators.

In Sweden, for example, the entry of the leading European advertising networks has been difficult. The French network Publicis acquired Intermarco, a large agency with more than 100 employees, in the 1980s. After the failure of Intermarco, Publicis made serious attempts to buy Garbergs the most profitable Swedish agency, in 1995, but Garbergs refused the offer (and is now losing the international Shell account as a result).

RSCG acquired the majority of shares in Hawi, a medium-sized creative agency, in 1987. After the international network merger of RSCG and Eurocom, Hawi was forced to merge at the local level with the Eurocom Swedish office. This operation led to internal problems: founders and key employees left Hawi, and earnings dropped from SEK 26 million in 1991 to SEK 14 million in 1994.

6.2. The advertising agencies' role in the value chain and strategic responses

Over the last 15 years, advertising agencies have been involved in the dramatic changes taking place in the advertising global value chain, in which they used to play the leading role. The meaning of their activities has been called into question, due to the simultaneous evolution of both intra-sectoral and inter-sectoral competition.

Analysis of the reshaping of the advertising value chain clearly shows that advertising agencies are the 'weak link' in the global advertising added-value chain. Advertising agencies have a weak position, and often have less market power than companies and media operators. Market power is located mainly in the companies which define marketing communication strategies, and these are usually large companies (see Section 5.4.4 above). The position of advertising agencies is also weak with respect to media providers (which have the tools to transmit the messages to the target audience) and to media-buying agencies, whose concentration at European and international levels is increasing.

Increased competition has also been experienced by the other participants operating in the marketing communication field, such as agencies specialized in direct marketing, public relations and sales promotion. Companies' interest in these communication tools has been increasing due to the growing need to integrate marketing communication strategies. The traditional distinction between above- and below-the-line marketing tools has been disappearing, while a trend to focus communication strategies on individual consumers' needs and interests has been emerging.

Many agencies have accepted the challenge. They have tried to improve their core activity, their creativity, to be more involved in clients' communication and marketing problems; to retain media planning and buying activities either by maintaining these services within their structures or by creating their own media-buying agencies; and finally, by extending their interests to other communication tools.

Besides these possible choices, another opportunity has been growing in importance: internationalization, seen as the main way to handle really large advertising budgets.

In this very competitive environment, some advertising agencies have been forced to close down, and others have adopted both internal and external reorganizations in order to defend their market positions or just to survive.

Internal reorganizations have taken three main forms:

- (a) There has been a search for greater efficiency in both costs structure and input productivity. Since advertising agencies belong to a labour-intensive sector, they have been obliged to reduce internal costs and improve productivity, by reducing personnel numbers. The consequent qualitative or quantitative shortages in human resources have often been filled by using freelancers in a very flexible and cost-efficient way.

- (b) A trend towards externalization has affected activities formerly carried out exclusively by advertising agencies. Many advertising agencies have given up the management of media planning and buying (replaced by media buyers), and strategic functions (replaced by companies and sometimes by media buyers).
- (c) The management of transnational advertising budgets and campaigns has been improved in terms of efficiency, but especially effectiveness. A great number of European account departments have been established to rationalize the use of resources better.

External reorganizations have taken four main forms:

- (a) Recourse to M&As, joint ventures and strategic alliances. While once only large advertising agencies were at the forefront of these operations, nowadays small and medium-sized agencies are also extremely enterprising: the ability to operate in the European market is a necessary condition for the conquest of the increasing number of international advertisers. An interesting case of a strategic alliance created to expand activities in Europe is offered by Gruppo Nuova Comunicazione in Trieste (Italy). This advertising agency has converted its peripheral location into a strength factor: through a small network in Slovenia, Croatia and Hungary, and an association agreement in Germany, with Bierfreund und Partner in Munich, it has extended its activity across Middle and Eastern Europe in order to achieve international budgets.
- (b) The recourse to a 'split-strategy', through which advertising agencies help their young creative talents start a new jointly-owned agency. In this way the rising budgets are handled by multiple small agencies. Further, since the agencies are independent, they can manage client companies operating in the same business, which would not agree to be served by the same agency. This strategy is common not only among large agencies, but also among medium and small-sized agencies (in Sweden, for example).
- (c) The creation of media-buying agencies, either by the agencies themselves or in partnership with other advertising agencies. This trend has involved practically all the main international advertising networks (The Media Partnership formed by Ogilvy & Mather, J. Walter Thompson, both owned by WWP Group, and Omnicom Group's BBDO Worldwide and DDB Needham Worldwide; Mediapolis formed in 1994 by Young & Rubicam and Euro RSCG).
- (d) Recourse to M&As by advertising agencies in order to develop know-how of other communication tools. The opportunity – or even the need – to extend competencies established in advertising over other forms of marketing communications has led advertising agencies to acquire equity positions in various communication agencies.

It is on the basis of the above strategic and competitive opportunities that differentiation between advertising agencies should be identified. Nevertheless, the historically low differentiation of the sector prevents a proper breakdown of the industry's strategic profile. The advertising services sector typically shows two different levels of competition. The first competitive level is that of inter-agency competition. The second is centred around competition for individual clients. From a sectoral perspective (the perspective of this research), operators' competitive strategies begin with the industry structure, which obviously influences competitive behaviour – of importance are factors such as concentration ratio, scale and scope economies, and entry barriers. However, since individual clients are very important in this sector from a quantitative point of view, and because they express needs that are hardly reducible to a general average, another competitive level arises. Each customer may be

considered as a separate market, demanding specific, individually tailored, competitive behaviours from the agencies.

Considering these two different competitive levels, one can observe that the general competitive structure of the sector is not highly differentiated. Agencies tend to use a large number of competitive weapons (thus preparing the ground for the always imminent aggressive price competition), and only the most proactive search out a more defined (but also risky) competitive identity. There is high differentiation at the individual customer level, however: all the competitive weapons can be considered as a necessary condition for competition in this business, but they become unique, key success factors when matched with the specific needs of customers.

Inside this competitive framework, the traditional difference between large and small agencies, once the mainstay of strategic distinction, is beginning to lose its significance. Although differences between large and small agencies are very evident in terms of structural dimension and the widening of activities carried on with internal inputs, there are more and more cases of competition between them. Small-sized agencies are increasingly interested in the same pitches as the large agencies, since they can surmount their more limited internal resources by using external and highly qualified factors (e.g. by using freelancers), and spread their range of activity over more countries (e.g. by using international strategic alliances). The research has verified (Table 6.1) that a significant number of small agencies (17%) predict that the growth of their billing in the next five years will derive principally from the pursuit of an international approach. The rate is above 40% if one considers middle-sized agencies too.

Table 6.1. Sources of the billing growth: advertising agencies' forecasts

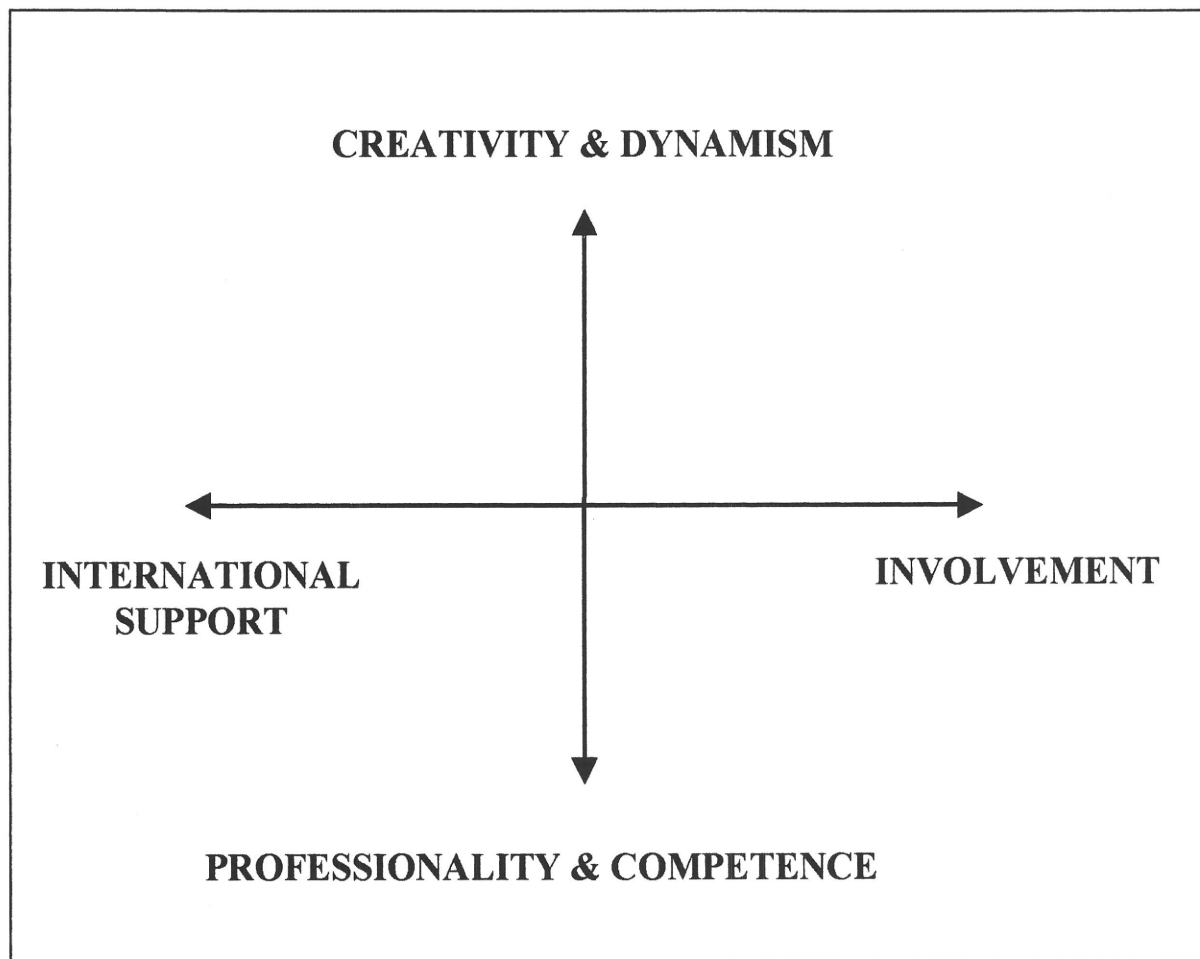
Item	Opinion	Total	Little agency	Medium agency	Large agency
'My agency's next five years' growth of billing will mainly come from my international market'	Strong disagreement	26%	50%	29%	0%
	Certain disagreement	21%	25%	22%	15%
	Neutral	10%	8%	7%	15%
	Certain agreement	26%	17%	21%	39%
	Strong agreement	17%	0%	21%	31%

Source: Bocconi University.

A more detailed distinction between the competitive behaviours could perhaps be noted, according to the most-frequently cited competitive variables which underlie advertising agencies' strategies. The Ballester research, for example, places agencies on the quadrants of a matrix composed of four dimensions (Figure 6.1):

- (a) creativity and dynamism;
- (b) involvement;
- (c) international support;
- (d) professionalism and competence.

Nevertheless, in our opinion, such an approach is useful only from the perspective of a single agency wishing to understand its own and its competitors' positioning. No general application to the study of the European sector over time, can be made. This is because there would be a never-ending series of re-positioning of the operators, but no significant competitive groups would arise.

Figure 6.1. Ballester competitive dimensions

Source: Ballester-Makno.

Apart from differentiation between competitive groups, the field research has shown the emergence of a conceptual and strategic alternative. In an environment of constant change, where new participants and competitors appear (new opportunities, new threats, new tools), a choice about advertising agency identity has to be faced. Should advertising agencies focus on the creative dimension (leaving aside all the other advertising-related functions)? Or, should they expand their role as communication experts? In the second case, the creative process would only be the last and most valuable phase of an expanded task, in which the study of, and involvement in, clients' marketing strategies, new communication technologies and new languages, would retain and increase its importance.

7. Case studies summary

7.1. Impact of changes on the competitiveness of the advertising business in the UK market

The case analyses the development of the competitive, strategic and organizational responses of a large multinational advertising agency.

At the general level of the advertising agency sector, there are several starting issues: intensification of inter-agency competitiveness, impelled by the increased demand for differentiation from client companies. There is clearly a situation of 'derived strategy', in the sense that what agencies take into account is influenced by the development of competitiveness in client markets. This depends on the relative maturity of the market, the always diminishing defendability of product technology, the increasing power of distributors, the growing importance of 'own brands', and increased international competition.

This situation, when applied to the market of advertising agencies, takes the form of a growing demand for services accompanied by a generalized demand for cost reductions. It is interesting to note the following: in this context the effects of the single market programme are expressed more by reference to impacts on markets and client strategies than on direct impacts on agency business.

In the case analysed, the dominant aspects in the relation between advertising agencies and their clients are particularly concerned with the organizational aspects of both advertising agencies and clients.

The single most common feature of client activity is the trend towards greater co-ordination. This is not in conflict with the current fashionable ideas of greater decentralization, autonomy or empowerment. What it seeks to do is to maximize economies of learning and brand investment, rather than economies of scale.

This demand on the part of client companies is determined by strategic responses at the level of global positioning and of organizational behaviour of advertising agencies. The development of competitive positioning is expressed in the increase of companies' field of activities, which are increasingly being defined as total communications, integrated market operation, more than advertising agencies in the limited sense.

With regard to organizational structure, the hypothesis on which the case has been developed concerns the eventual structural modification of agencies as a function of client changes to follow the orientation towards the final establishment of a European headquarters.

This change, which seemed predictable ten years ago, also because of the single market, does not seem to have been realized. Because the number of truly pan-European campaigns is still limited, it is still necessary to mix standardization and local adaptation, which requires experience and advertising know-how at the local level.

In conclusion, because advertising agencies have to adapt appropriate strategies and organizational structures to meet client needs, their capacity to respond to European integration processes depends on the type of demand which comes from clients. The most

important finding is that in the successful agencies the whole strategy from organization through to the people employed is client driven; thus, if the clients are impacted by the single market programme, so are the agencies.

7.2. International role for small and medium-sized advertising agencies

A number of advertising agencies mentioned that the single market was expected to be one of the factors increasing the speed of polarization in advertising agency business over the next five years.

It was predicted that large agencies would work mostly with large multinational companies, while the small agencies would be limited to individual national markets. This prediction is only in part realistic because there is still an interesting space of internationalization for small advertising agencies.

This space can be occupied on condition that these agencies achieve and maintain an element of competitive differentiation which can compete against the greater financial, technological and organizational capacity of the largest advertising agencies. The element of competitive distinction is expressed in a 'niche' strategy.

Four cases of 'niche' strategy have been analysed. Three of these operate at the international level, while the fourth does not intend to operate outside its national market. In all the cases analysed the element of success resides in the choice of a highly specialized 'niche' strategy.

The first agency has set up as a creative independent and this is, perhaps, the forerunner of a new fragmentation of the industry and may herald the start of a phase in which the industry begins to outsource to a much greater degree.

The second agency specializes in new product and brand development and also works in conjunction with much larger agencies. Both seem to have had some international success and illustrate that small agencies can be international in outlook and experience.

The third agency studied is also in a specialist area, that of business-to-business. It moved into Europe successfully, initially developing European work with a major multinational client. But, by setting up an office in another European country, it gave itself other opportunities for establishing local links. It has planned to open a new European country in 1996.

The last agency studied has decided that it has no immediate plans to move outside its domestic market. It is perfectly happy to deal with international clients on its own territory.

In conclusion, the four cases studied demonstrate that the perceived effects of the single market concern polarization between large and small agencies, but that this does not exclude small agencies from international markets, on condition, however, that they adopt a strategy of specialization in a 'niche' market.

7.3. Impact of the European market on the profile and competitiveness of a Belgian advertising agency

The case analyses the positive and negative effects resulting from the single market in the opinions of a Belgian advertising agency.

At the level of internationalization the advertising business in Belgium does not seem to have grown. International clients have not increased; on the contrary, some international clients have moved their advertising decision-making centres beyond Belgium.

The possible reactions of advertising agencies concern integration in an international network by developing co-operation agreements and joint ventures, even if being part of a network can mean losing a measure of autonomy.

The increased international competition leads agencies to act very quickly, and to adapt themselves, among other things, to high-tech communication equipment. Further, there is a search for greater efficiency. On the other hand, a possible loss of creativity in advertising is emphasized, which leads to a potential loss of effectiveness. In fact, the strategy of the adaptation of the spot, of the translation of an initial and enduring message, the standardization of the advertising campaign (with a minor adaptation) leads to a loss of effectiveness due, for example, to a bad selection of media, and to inadequate communication with the consumers.

The fundamental point remains, thus, the question, whether the greater efficiency coming from the standardization of advertising (and the consequent economies of scale) has positive effects, greater than the potential loss of effectiveness from the lower adaptation to local culture.

As far as the effects of the single market are concerned it must, nevertheless, be said that from analysis of the Belgian case it emerges that advertising agencies may have little knowledge of Community Directives, and may therefore fail to correct some evolutionary phenomena with the adoption of EU Directives. The creation of VT4 (a Flemish channel based in London), for example, which opened the media market for advertising in Flanders, is to be understood as a direct effect of the SMP on this market.

7.4. Different marketing and advertising strategies in the European fashion business

The case analyses the relations between five European companies operating in the fashion sector with their own advertising agencies.

These cases demonstrate that the 'advertiser-advertising agency' relationship in a culturally international sector such as that of fashion, in which advertising strategies are based fundamentally on the development of creativity, can be easily developed with foreign agencies.

In one case (H&M) all the advertising campaigns are standardized at the level of concept. There is naturally a great recourse to visual advertising using models and testimonials which are easily recognizable in every country. Dockers, Diesel, and Marc O'Polo are three good examples of successful co-operation over national borders. In all the cases the companies have selected agencies in foreign countries. In all three cases the communication concept is standardized, while language in some cases is adapted to local needs.

Gant/Pyramid is a good example of successful brand marketing that has an image not based on the country of origin nor on the country where it is marketed. The Gant and Dockers cases also demonstrate that it is possible to use an independent advertising agency at the international level of marketing.

The five cases analysed show that the advertising of fashion products tends to be more facilitated by standardization, whether because of a greater product orientation or because it can be targeted at consumers (predominantly young) who have the same values in most European countries.

These cases confirm, further, the tendency for greater pan-European standardization in the creative and strategic realization of advertising campaigns, and the greater local adaptation for product assortment and distribution. It should be noted, however, that local markets are defined more in terms of single market regions than different countries.

8. Conclusion

The research revealed that direct measures facilitate pan-European marketing. The costs of cross-border advertising campaigns have been reduced as a result of EU measures to liberalize TV broadcasting services, such as the Television Without Frontiers Directive.

The principal effect on the advertising sector has been made by indirect measures, which have removed obstacles to the free movement of goods and services in the EU. This has permitted advertisers to adopt a genuine pan-European approach, and has created a demand for cross-border services. The research revealed that the establishment of the single market has led to cost reductions. The single market has had significant effects on the marketing and communication strategies of clients, and this in turn has produced major changes in advertising agencies' strategic and operational operations.

There has been a continuous trend towards greater standardization of marketing policies by the users of advertising. This trend is particularly marked in sector such as youth and luxury, where there is a high convergence in consumer behaviour. The companies have identified three factors determining advertising standardization: the convergence of consumer behaviours, the standardization of the media system, and the process of harmonization resulting from single market integration. Both investors and advertising companies are agreed that the principal benefits of standardization include the ability to exploit the same brand image across Europe, and the ability to obtain economies of scale as a result of so doing. Despite the trend towards the standardization of communication activities such as the definition of objectives, the targeting and campaign production, the companies still experience notable difficulties in media strategy planning and buying. Differences in the national media provider sectors, and the continuing fragmentation of the media system, are the major obstacles to the development of pan-European advertising campaigns.

Both advertising agencies and advertisers place emphasis on the legislative shortcomings listed in the questionnaires, such as the absence of harmonization in the area of sales promotion and comparative advertising (although the research indicates that advertising agencies lay more stress on cultural than on legal factors). There still remain numerous partial restrictions affecting one or more Member States, and these can make the design and implementation of a pan-European advertising campaign a difficult, and in certain circumstances, a legally hazardous undertaking. In practice, a company which develops a pan-European campaign is frequently forced to adapt, not only to varying market conditions, but to varying legal conditions as well. Such legal differences increase costs and may endanger a campaign's communication effectiveness. The most significant administrative and legal obstacles to the development of pan-European advertising campaigns occur in such areas as misleading advertising, price advertising, media restrictions, sponsorship restrictions, and specific product areas such as tobacco, pharmaceuticals, financial services, and commercial communication to children.

The advertising sector has increased its international orientation over the last ten years. 84% of the advertising agencies hold that the international orientation of the sector has increased, and 82% hold that international integration is greater than in the past. Pressure for the greater international integration of the advertising sector has come from the increased internationalization of advertisers, who increasingly demand that agencies handle their

campaigns in more than one country. This demand has led to the establishment of international networks by agencies.

As well as the scale and scope effects deriving from greater international integration, and the harmonization of advertising rules at the European level, cost savings have been obtained in the areas of accounts and production. European account departments have increased, and the local adaptation of transnational campaigns have also contributed to production savings.

Advertising investment in the EU has increased greatly in the last fifteen years, although there is variation in the penetration of different media among Member States. Newspapers have maintained their leadership in central and northern countries, while television has assumed leadership in Mediterranean countries. Competition in the agency sector has also increased in the 1990s. Increased competition was due to two factors. Many businesses reduced their levels of communication investment because of the recession. Second, greater European integration caused increased competition among international networks, and between local agencies and international networks. These two factors have increased both sectoral concentration and the polarization between small/local agencies and the large networks. Price competition has contributed to the decline of agency commissions and the increasing adoption of alternative remuneration systems and the use of incentive schemes.

There have been three principal responses to increased competition. Productivity has been improved through the increased reliance on freelancers, and the adoption of new technologies in creative departments, media planning and agency administration. There have also been improvements in the quality of advertising agencies' methods and outputs.

In general, the effects of the single market on the advertising sector have principally been indirect. The single market has encouraged more and more companies to adopt pan-European marketing and communication strategies, thus allowing advertising users to exploit the same brand image across Europe, and thereby obtain economies of scale in campaign production.

The greater harmonization of advertising rules and the predicted future development of pan-European media systems have brought about changes in the advertising agency sector. Increased competition has led to searches for synergies of scale and scope over the whole advertising service value chain, as well as internal and external reorganization.

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